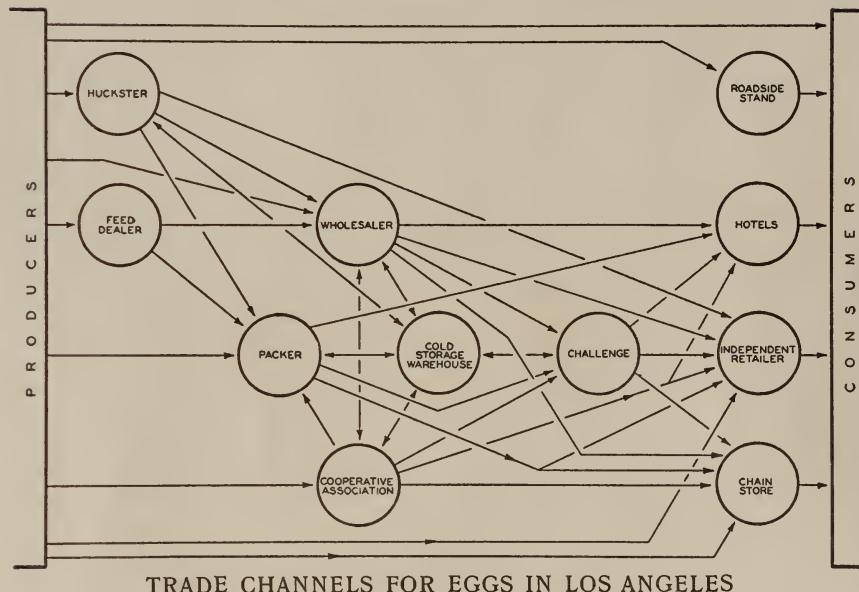


UNIVERSITY OF CALIFORNIA
COLLEGE OF AGRICULTURE
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OPERATIONS OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, INC.

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AN ANALYSIS OF THE OPERATIONS OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, INC.¹

J. M. TINLEY² AND E. A. STOKDYK³

INTRODUCTION

Reasons for Study.—The Poultry Producers of Southern California, Inc., was formed in 1916 to market the eggs of its members on a cooperative basis. While its membership and volume of business increased steadily during the first few years of its operation, the Association⁴ experienced increased difficulty during the past few years in securing the continued support of poultry producers. Because the prices paid to members by the Association in 1929 were considerably lower than those paid by competitors a large number of members withdrew as active shippers at the beginning of 1930. There was a feeling among many producers that the Association, as it was organized at that time, had outgrown its usefulness and was no longer able to render efficient service.

Opinion was divided as to what should be done. Some suggested that the Association should cease active operation and liquidate. On the other hand, the Board of Directors of the Poultry Producers of Southern California and others interested in the poultry industry in southern California considered that the methods of marketing eggs cooperatively in Los Angeles should be changed. It was proposed that the Poultry Producers of Southern California merge with the Poultrymen's Cooperative Milling Association, an organization supplying poultrymen in southern California with feeds and poultry supplies. It was decided, however, by the boards of directors of the two associa-

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⁴ The term "Association" used throughout this bulletin refers to the Poultry Producers of Southern California.

tions that before action was taken there should be a thorough investigation of marketing conditions in Los Angeles and of the operations of the Poultry Producers of Southern California, by an impartial body with a view to ascertaining (1) the factors leading to the unsatisfactory condition of affairs and (2) what steps, if any, should be taken to rectify the situation.

The College of Agriculture was requested by the Poultry Producers of Southern California to make such a study. It was stated that the Association would render all possible assistance and would cooperate in every way in the furtherance of the investigation. In response to this request, the Giannini Foundation of Agricultural Economics undertook to make an investigation along the lines indicated.

Purpose of Study.—The purpose of this study was to analyze (1) the condition under which eggs are marketed in Los Angeles and (2) the operations of the Poultry Producers of Southern California in order to ascertain:

a. Whether since 1917, when the Association began operations, there have been any material changes in the demand and supply situation or in the market structure for eggs in Los Angeles, which made it difficult for the Association to continue to operate successfully.

b. Whether under present conditions a cooperative association for handling eggs has a place in the market structure and can perform a useful and economical service on behalf of members, and if so what its structure should be and what policies it should follow in order to compete successfully with the other elements in the trade.

Such an analysis should be of value not only to poultrymen in southern California but also to cooperative associations handling eggs in other parts of the United States, especially where market conditions similar to those in Los Angeles prevail.

Source of Material.—The qualitative and quantitative information on which this study is based was obtained from the files and financial records of the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association, from the files and records of the Giannini Foundation, from the records of prices compiled by the Produce Exchange of Los Angeles and other bodies, and from interviews with various persons, including producers and dealers, interested in the marketing of eggs. For the purpose of comparison with the Poultry Producers of Southern California, information on costs of operation, prices, and sales methods and policies were obtained from several other cooperative associations selling eggs in California.

THE LOS ANGELES MARKET FOR EGGS

Population Growth.—During the last decade the population of southern California has increased very rapidly (table 1).

TABLE 1
POPULATION OF SOUTHERN CALIFORNIA

	1920	1925	1930	Percentage increase over 1920	
				1925	1930
California.....	3,427,000	4,871,000	5,629,000	42.1	64.6
Total southern California.....	1,345,000	.....	2,927,000	.....	117.6
County:					
Santa Barbara.....	41,000	.....	65,000	.....	58.5
Ventura.....	29,000	.....	55,000	.....	89.7
Los Angeles.....	936,000	1,821,000	2,202,000	94.5	135.2
San Bernardino.....	73,000	.....	134,000	.....	83.6
Orange.....	61,000	.....	119,000	.....	95.1
Riverside.....	50,000	.....	82,000	.....	64.4
San Diego.....	112,000	.....	209,000	.....	86.6
Imperial.....	43,000	.....	61,000	.....	41.9

Source of data:

1920 and 1930 data from: U. S. Dept. Commerce, Bureau of Census. California: number and distribution of inhabitants. Fifteenth Census of the United States: 1930; Population Bulletin. p. 1-21. 1930.

1925 figures are an estimate of California Chamber of Commerce, Research Department, Economic Survey Reports 9 and 11, Ser. 1930-31.

According to table 1, the population of the eight southern counties listed above increased from 1,345,000 in 1920 to 2,927,000 in 1930, or 118 per cent. Approximately 75 per cent of the population of southern California was in Los Angeles County, the population of which had increased from 936,000 in 1920 to 2,202,000 in 1930 or 135 per cent. The major portion of this increase took place during the years 1920-1925, the increase being 94 per cent. The population of Los Angeles County in turn is concentrated largely in the city of Los Angeles and contiguous cities.

The Poultry Industry in Southern California.—The production of poultry and eggs has been an important agricultural enterprise in California for many years. Details of production in the area which is now the main source of supply for Los Angeles and adjacent cities are unfortunately not available before 1920. It is stated, however, by several of the leaders of the poultry industry, who were acquainted with conditions before 1920 that production in southern California exceeded local requirements for most of the year and that during

the flush season of production each year, farmers were faced with a serious marketing problem. Before 1916, when the Poultry Producers of Southern California was formed, it was the general belief that owing to the high temperatures prevailing during the period of flush production each year, eggs produced in southern California deteriorated so rapidly that they were not suitable for storage or for shipment to eastern markets. One of the objectives of the Poultry Producers of Southern California was to undertake the storing of eggs and to provide facilities for shipping eggs to distant markets. In this it was successful. Within a few years after 1917, however, most of the important independent dealers and packers were storing eggs and shippings eggs East as a part of their regular activities.

The bulk of the shell egg supplies of Los Angeles and contiguous cities is obtained from the counties of Santa Barbara, Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and from Kern, Kings and Tulare counties in the San Joaquin Valley. Eggs are also obtained from central California and from several other states on the Pacific Slope. Eggs from the counties adjacent to Los Angeles are usually shipped by truck; from the more distant parts eggs are shipped by train or by steamer.

According to the 1925 census the production of eggs in California for the year 1924 amounted to 97,907,000 dozen with a total farm value of \$31,615,000.⁵ The production in the eleven counties listed in the preceding paragraph was 31,595,000 dozen and the farm value \$10,628,000. Approximately 22.1 per cent of the total California production was in the eleven counties.

Poultry raising in southern California is conducted on a very specialized basis, often on farms of only a few acres. In the majority of cases poultry producers obtain practically all of their total cash receipts from poultry. However, a considerable number of farmers raise poultry in combination with fruit growing and truck gardening. The poultry flock in such cases provides a continuous cash income and also makes available manure for the orchards or gardens. However, the large amount of detailed supervision required on a large poultry farm usually necessitates specialization.

Flocks range all the way from a few hundred hens to 20,000 and more on the larger farms. The operators of the larger farms usually have been in the poultry business for many years. There has been, however, a considerable turnover in operators on 1 and 2-acre farms which run flocks of only a few hundred hens. A feature of the poultry

⁵ Voorhies, E. C. The California poultry industry: a statistical study. California Agr. Exp. Sta. Bul. 413:162. 1926.

business in southern California has been its close relation to residential real estate or orchard development. Many farms on which a few years ago poultry was produced, have now come within expanding city limits and have been subdivided into residential plots. In fact, many purchasers were induced to buy small farms with the prospect of future sale at an enhanced price as residential property. They were given to understand by real estate companies that poultry raising would provide a sure source of income until their properties were sold or their orchards came into bearing. Many of the purchasers, however, who were inexperienced in poultry raising, soon found their small flocks unprofitable and ceased raising poultry. In the case of purchasers of orchards the raising of poultry was discontinued as soon as the orchards began bearing. The result has been a rapid turnover in poultry producers.

This turnover among poultry farmers undoubtedly was one of the factors retarding the progress of the Poultry Producers of Southern California. Among the stockholders of the Association were numbers of persons who had ceased raising poultry. Many of the new members were newcomers in the poultry business.

It is generally admitted that an interested and loyal membership is necessary for the success of a cooperative association. Most organizations have developed systems for maintaining membership contact. Where a large part of the farming population is changing continuously, contact with members becomes both difficult and expensive. The efforts of the Poultry Producers of Southern California to sustain membership interest and loyalty under conditions existing in southern California were on the whole ineffective. The rapid turnover in farming population also made the volume of business which the Association handled uncertain.

Production of Eggs.—Table 2 shows the production of eggs by counties for southern California and the counties of Kings, Kern, and Tulare for the years 1919, 1924, and 1929.

It will be seen that production of eggs in the territory adjacent to Los Angeles increased only 66.4 per cent between 1919 and 1924. The production in 1929, however, was almost double that of 1924, and represented an increase over 1919 of 217.6 per cent. During the same period the increase in population in Los Angeles County was only 135.2 per cent and that of all the counties listed in table 1 only 117.6 per cent.

Shipments of Eggs.—The shipments of eggs into and out of Los Angeles during the period 1925 to 1930 inclusive are shown in table 3.

TABLE 2

PRODUCTION OF EGGS IN THOUSANDS OF DOZENS, IN 11 CALIFORNIA COUNTIES

County	1919	1924	1929	Percentage increase over 1919	
				1924	1929
Santa Barbara	376	487	775	29.5	106.1
Ventura	300	640	1,022	113.3	240.7
Los Angeles	8,191	13,826	29,356	68.8	258.4
Orange	1,234	1,750	2,798	41.8	126.7
San Bernardino	1,043	2,045	9,597	96.1	820.1
Riverside	1,238	2,660	4,365	114.7	252.6
San Diego	2,498	5,504	5,483	120.3	119.4
Imperial	958	877	1,270	— 8.5	32.6
Kern	598	872	1,343	45.8	124.6
Kings	800	764	903	— 4.5	12.9
Tulare	1,756	2,170	3,405	23.6	93.9
Total	18,992	31,595	60,317	66.4	217.6

Source of data: U. S. Dept. of Commerce, Bureau of Census. Fifteenth Census of the United States: 1930. Agriculture: California.

TABLE 3

SHIPMENTS OF EGGS INTO AND OUT OF LOS ANGELES, 1925–1930

Year	Shipments in from		Total shipments in	Shipments out	Net inward shipments
	California	Other states			
	1	2			
1,000 cases	1,000 cases	1,000 cases	1,000 cases	1,000 cases	1,000 cases
1925.....	456	119	575	12	563
1926.....	446	114	560	32	528
1927.....	409	51	460	20	440
1928.....	604	29	633	43	590
1929.....	641	94	735	19	716
1930.....	682	81	844	32	812

Source of data:

Col. 1 and 2: 1925–1929 from U. S. Dept. Agr. Yearbook 1930. 1930. Data for 1930 from Federal-State Market News Service, San Francisco office. Dairy and poultry products, daily issues.

Col. 3: Sum of cols. 1 and 2.

Col. 4: Federal-State Market News Service, San Francisco office. Dairy and poultry products, daily issues.

Col. 5: Col. 4 subtracted from col. 3.

It will be seen from table 3 that while total shipments of eggs into Los Angeles have shown a considerable increase since 1925, shipments from outside states show a tendency to decrease. Unfortunately, there are no data available to show the origin of California shipments of eggs.

Movements of eggs out of Los Angeles have not shown any marked increase and have not offset the increased inward shipments. It is true that eggs are still shipped East from Los Angeles, but this usually happens during the period of flush production when considerable quantities of high-grade eggs with strong shells become available (see page 12).

The data on shipments tend to bear out the opinion of the trade that during the last few years Los Angeles has become more of an "import" market. This has an important bearing on the operations of a cooperative association in the Los Angeles market.

Seasonal Variations in Receipts.—Owing to seasonal variations in production of eggs, the seasonal receipts of eggs on the Los Angeles market indicate a wide variation as is shown in table 4.

TABLE 4
RECEIPTS OF EGGS IN CASES, ON LOS ANGELES MARKET, 1926-1929

Month	1926	1927	1928	1929	Average receipts, 4 years	Per cent of average total receipts for 4 years
January.....	28,222	23,892	40,128	50,821	35,766	6.0
February.....	39,136	26,404	68,338	45,361	44,810	7.5
March.....	66,249	59,960	94,670	82,909	75,947	12.7
April.....	70,730	78,221	90,225	103,481	85,664	14.3
May.....	100,768	70,936	77,378	100,087	87,292	14.6
June.....	80,644	67,229	60,001	83,197	72,768	12.2
July.....	65,141	38,849	37,395	68,376	52,440	8.8
August.....	39,268	25,034	40,805	54,970	40,019	6.7
September.....	21,838	16,511	26,846	38,748	25,986	4.4
October.....	16,056	13,636	29,117	43,758	25,642	4.3
November.....	13,976	18,418	27,197	33,351	23,235	3.9
December.....	17,677	21,332	41,345	30,190	27,636	4.6
Total.....	559,705	460,422	633,445	735,249	597,205	100.0

Source of data:

Federal-State Market News Service, San Francisco office. Dairy and poultry products, daily issues.

Receipts of eggs are usually heaviest during the months March to June and lowest from August to December. During the four years 1926-1929, nearly 54 per cent of the egg receipts were during the four spring months, March, April, May, and June. This fact would

appear to have considerable significance for a cooperative association, which has to provide for facilities and personnel for handling large quantities of eggs at the peak of production. While it may be possible to reduce direct labor costs during the period of low receipts, there is little opportunity for contraction of facilities and office staff during such a period. This means that during the period of low receipts costs per unit are higher than during the period of heavy receipts.

TABLE 5
RECEIPTS OF DRESSED POULTRY AT LOS ANGELES, 1926-1929

Month	1926	1927	1928	1929	Average, 4 years
	1,000 lbs.	1,000 lbs.	1,000 lbs.	1,000 lbs.	1,000 lbs.
January.....	407	434	696	723	566
February.....	241	341	478	600	415
March.....	304	301	317	328	312
April.....	140	172	438	165	229
May.....	126	140	74	116	114
June.....	114	214	167	349	211
July.....	239	299	305	464	327
August.....	321	229	168	221	235
September.....	198	213	323	298	258
October.....	338	372	347	400	364
November.....	985	1,216	1,548	1,720	1,367
December.....	1,534	1,667	1,890	2,132	1,806
Total.....	4,947	5,598	6,751	7,521	6,204

Source of data:

Federal-State Market News Service, San Francisco office. Dairy and poultry products, daily issues.

The handling of one or more other commodities during the slack season would make possible a more efficient utilization of handling facilities and office staff. One commodity that would seem to fulfill such a purpose is dressed poultry. Table 5 shows that the receipts of dressed poultry at Los Angeles for the years 1926 to 1929 are heaviest during the months October to February, when receipts of eggs are lowest. It appears, therefore, that from the standpoint of better utilization of facilities and personnel it would be advantageous for a cooperative poultry association to handle both eggs and poultry.

Storage Holdings.—During the months of heavy production considerable quantities of eggs are put into storage for distribution during the months of low production. Table 6 shows storage holdings at Los Angeles at the end of each month for the years 1926 to 1930 inclusive.

TABLE 6
STORAGE HOLDINGS AT LOS ANGELES, 1926-1930

Month*	1926	1927	1928	1929	1930
	1,000 cases	1,000 cases	1,000 cases	1,000 cases	1,000 cases
January.....	1	2	0	0	0
February.....	6	7	19	1	18
March.....	50	60	87	40	86
April.....	98	124	175	95	155
May.....	196	176	228	162	218
June.....	239	219	256	216	278
July.....	258	228	262	231	295
August.....	247	214	248	224	294
September.....	211	169	189	175	247
October.....	141	116	121	126	191
November.....	80	57	49	64	.....
December.....	28	6	3	9	.....

* Storage holdings as at the end of each month.

Source of data: Monthly reports of the Los Angeles Chamber of Commerce.

It will be seen that the peak of storage holdings is usually reached in July and that by January practically all eggs are cleared from storage. There is some variation in monthly storage holdings from

TOTAL WEEKLY RECEIPTS OF EGGS AND PERCENTAGE OF EXTRAS,
MEDIUMS, AND SMALLS, RECEIVED BY THE POULTRY
PRODUCERS OF SOUTHERN CALIFORNIA, 1928 AND 1929

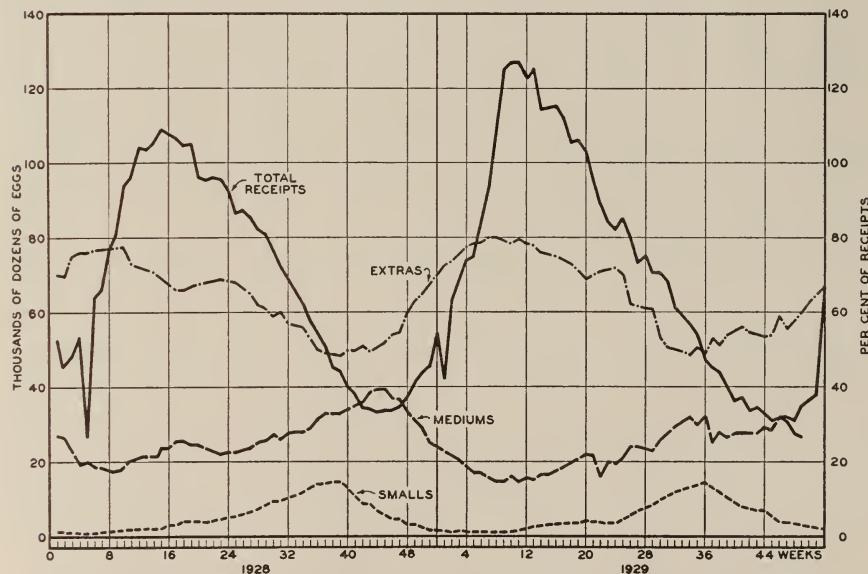


Fig. 1.—During the season of heavy receipts the average quality of eggs is higher than during the period of light receipts.

year to year. Such variations appear to be dependent upon a number of factors, such as current prices and production and the profitability of storage operations during the two previous years. Storage eggs are not sold to consumers as such. As they are removed from storage during the fall months they are candled and mixed with eggs of current production for sale to the retail trade. This practice will be referred to later (pages 23-24). There are no price quotations on the Los Angeles market for storage eggs.

Seasonal Variations in Quality.—During the months of heavy production the average quality of eggs produced is higher than during the months of low production. It would appear that the conditions favorable to heavy production are also favorable for good-quality production. This is illustrated by figure 1, which shows the egg receipts of the Poultry Producers of Southern California for the years 1928 and 1929 by grade. During the period of heavy receipts eggs are usually graded somewhat more strictly, especially as regards thickness of shell, for it is during this period that shipments of eggs to eastern markets are likely to take place.

TRADE CHANNELS AND PRACTICES IN LOS ANGELES

The figure on the cover page depicts the main channels through which eggs pass from the producer to the consumer in the Los Angeles market. It will be seen that eggs may move in various ways.

The most direct method of marketing is the selling by producers directly to consumers, either by personal solicitation or at roadside stands. Many farmers near a big city are able to build up direct connections with consumers.

Some consumers prefer eggs that are strictly 'fresh' and think that the only way they can be assured of getting such eggs is by buying directly from producers. While most farmers undoubtedly do sell freshly gathered eggs to their customers, the consumer has no assurance that such eggs are fresh and of good quality. It was stated that some farmers in California found their business of selling eggs directly to consumers so lucrative that they bought inferior eggs from other farmers or purchased storage eggs from dealers and sold these as freshly gathered eggs.⁶ Furthermore, as most farmers do

⁶ Section 5 of the California Egg Law permits a farmer to sell to consumers only eggs of his own production.

not candle their eggs, it is possible that although eggs are of current production consumers may purchase eggs containing interior defects, such as blood and mold.

The big objection to the direct-to-consumer method of sale is its inconvenience. Most farmers, especially those operating large farms, have not the time nor the facilities for reaching a large number of consumers. On the other hand, very few consumers have the time to collect eggs regularly from producers. This method of sale is definitely declining with the increased urbanization of population.

A number of farmers sell their eggs directly to retailers. This is possible, especially where farmers live near small towns and deal with local grocers. By so doing, a part of the price they receive for their eggs is wages for the service of delivery. However, the scope for this method of sale is almost as restricted as the direct-to-consumer method, for obviously very few farmers will have the time and facilities for reaching the many thousands of retailers operating in Los Angeles and surrounding cities. At the same time, many retailers find this source of supply too unreliable and variable. They want a constant supply of eggs and find their best source of supply a well-established wholesale dealer, a packer,⁷ or a cooperative association. Moreover, as most farmers do not candle their eggs, the retailer has no assurance as to the interior quality of eggs bought, and exposes himself to prosecution under the California Egg Law, which requires the retailer to obtain from the seller an invoice showing the exact grade, or quality and size, or weight of eggs according to the standards prescribed by the State Department of Public Health.

Most of the wholesale egg dealers and packers buy a large part of their eggs directly from farmers. They operate trucks for collecting eggs from producers and for delivering to them the empty cases. The wholesale dealers and packers in turn sell their eggs to the wholesale and retail trade in Los Angeles or ship them to outside markets.

All of the packers and most of the wholesale dealers handle other products besides eggs and so spread their operating and marketing costs over several commodities.

A large part of the eggs produced in southern California are sold by producers to feed dealers and hucksters. A few feed dealers consider it an important point of contact with poultrymen. Their trucks

⁷ The terms 'wholesale egg dealers,' 'wholesale dealers,' 'wholesalers' or 'dealers' are applied by the trade in Los Angeles to persons or firms jobbing eggs to retailers. The term 'packer' refers to branches of the various meat-packing concerns.

deliver feed and empty egg cases and collect the full cases. As a rule, such feed dealers have arrangements to deliver all eggs purchased by them to wholesalers or packers. A few of them sell directly to retailers and one or two store eggs on their own account.

The nature and extent of the activities of hucksters (also known as pick-up men) vary considerably. Some hucksters are little more than itinerant buyers operating in certain territories. A few of them move from farm to farm, buying eggs where and when they can. Most hucksters, however, buy all or part of their egg supplies regularly from the same farmers.

Most hucksters have very low operating costs. They have no expensive equipment outside of a few light trucks used for collecting eggs from farms and delivering them to the trade. Very few of them do any candling and then only when they are selling eggs to retailers or storing eggs on their own account.

Many poultrymen in southern California are members of cooperative associations, the more important of which are the Poultry Producers of Southern California, with headquarters in Los Angeles, the San Diego Poultry Association operating in San Diego, and the Fontana Producers Egg and Supply Company at Fontana. Two associations located in Tulare and Porterville sell a large part of their eggs in and around Los Angeles.⁸ The associations collect eggs from their members, sort and candle them, and sell either directly to retailers or to wholesale firms and packers.⁹

Sales in the Wholesale Market.—Some eggs are bought and sold on the Produce Exchange of Los Angeles. It, however, is primarily a price-making mechanism (pages 25–26). In addition it regulates the trading practices of its members. All the packers, cooperative associations, and dealers handling poultry and dairy products on a wholesale basis are members of the Exchange. It has established standard grades for eggs as a basis for trading among members and provides machinery for the settlement of disputes.

Standard Grades for Eggs.—Most poultry producers have not the time, experience, and facilities to candle their eggs strictly. They are expected, however, to hand-grade or sort their eggs on the farm according to size and cleanliness. It is customary for hucksters,

⁸ The Challenge Cream and Butter Association receives small quantities of eggs from its local associations, but purchases its main supplies from concerns operating in the wholesale market.

⁹ Nearly all dealers can and freeze certain quantities of eggs. The volume of canned and frozen eggs is unimportant when compared with the volume sold to consumers in the shell and can be regarded as a by-product in handling shell eggs.

wholesale dealers, and others to pay for eggs purchased on the ranch on this basis. At times, however, when competition for eggs for storage purposes is very keen, many buyers tend to be less exacting in their requirements for farm sorting. At such times farmers are inclined to work in with their better-quality eggs an excessive number of low-grade and dirty eggs.¹⁰

Practice as to grading of storage eggs seems to vary. Some members of the wholesale trade place eggs in storage just as they are received from producers or hucksters and sort and candle them only when they are taken out of storage. Others sort and candle all eggs before placing them in storage and candle them again when they are taken out of storage. The latter practice involves double candling costs but those who prefer this procedure consider that the extra expense involved is not so large as the loss which might be incurred through the deterioration of inferior eggs placed in storage.

Grading on Wholesale Market.—All eggs sold by one wholesaler to another are required by the rules of the Produce Exchange of Los Angeles to be inspected. This body does not employ official inspectors but the United States Department of Agriculture Bureau of Agricultural Economics has established an egg inspection service in Los Angeles which is available to the trade.¹¹ The federal inspector cannot be expected to grade every case of eggs sold. In most markets it is found that inspection of only a small proportion of cases in each sale, chosen at random, is sufficient for the inspector to arrive at a conclusion as to the grade of all the cases of eggs involved in the sale. This is based on the assumption that the seller has previously strictly sorted and candled the eggs sold and is reasonably sure that all the eggs in a particular sale are up to the grade stipulated in the contract of sale. The inspection of a small percentage of the cases sold, however, would not be a fair test if the seller had not previously sized and candled his eggs. It would be possible in such circumstances that the few cases inspected might be satisfactory, but that several other cases involved in the sale might be undergrade.

From information gathered from various sources it appears that grading of eggs by many concerns operating on the wholesale market is far from satisfactory. The same competitive and speculative con-

¹⁰ From statements made by various persons this condition of affairs seems to have prevailed during the years 1928 and 1929 and during the spring of 1930.

¹¹ Such inspection may be in accordance with the standards of the Produce Exchange of Los Angeles or with the grades of the United States Department of Agriculture Bureau of Agricultural Economics. Eggs for local trade are usually graded on Produce Exchange grades; those shipped to eastern markets on United States wholesale grades.

ditions which tend to cause buyers of eggs at ranches to be less exacting in their requirements for farm sorting also tend to cause laxity in grading among wholesale dealers and packers (see pages 14 and 15). Eggs are frequently sold under Produce Exchange grades which contain a larger tolerance of inferior or undergrade eggs than is allowed by the regulations of the Produce Exchange. In many instances, eggs collected from farms are apparently sold by some wholesalers without further sorting. For the reason stated above, the fact that eggs are not up to standard is frequently not discovered by inspection of a few cases. The responsibility of insuring that eggs are up to the standard of contract seems to rest with the buyer and not the seller as should be the case. The reason that large quantities of eggs sold are not up to contract is that during the season of heavy production most firms are anxious to secure eggs for storage. At such times, if the buyer considers that the price he pays will enable him to make a profit on his storage eggs, he is not insistent on the eggs conforming strictly to the grade stipulated in the contract. He possibly will accept them as inspected and not trouble to size and candle them himself. Even if the buyer sizes and candles his eggs and finds them unsatisfactory, it often causes too much ill feeling, trouble, and delay to take the matter further, especially if the tolerance of inferior eggs is only slightly exceeded. Sometimes, when many cases are inferior, the buyer may insist on replacement of all or only the inferior cases. Because of the ill feeling involved instances of contract violation are seldom brought before the Board of the Produce Exchange. Fines are inflicted on very rare occasions and are not a deterrent to faulty grading.¹²

Retail Standard Grades.—Many eggs when they leave the farm contain interior defects which cannot be detected by hand sorting but which render such eggs "unfit for human food" according to the definition of the California Egg Law.¹³ The purpose of candling is to detect such eggs. For practical reasons it is not possible for retailers handling hundreds of different commodities to undertake the sorting and candling of all eggs sold to consumers. This task in practice is performed by wholesale firms, packers, and others selling eggs to retailers.

Eggs deteriorate very rapidly if exposed for any length of time to high temperatures. Furthermore, many deceptions can be practiced

¹² Subsequent to the completion of this study it was decided by the members of the Produce Exchange of Los Angeles that in the future all sales between members of the Exchange must be on a strictly candled basis.

¹³ California Department of Public Health California Egg Law. p. 3. [Quoted from Statutes of the State of California 1925, chapter 425; amended 1929.] 1930.

on the consumer, who has no assurance that the eggs purchased are of the quality stated. Such conditions tend to retard consumption and indirectly are disadvantageous to both producers and the trade.

Prior to 1925 there were no satisfactory laws regulating the sale of eggs to consumers and there was a great deal of complaint by both producers and consumers. Definite and enforceable regulations were felt to be necessary. In 1925 the California Egg Law was passed to protect the consuming public and to stimulate the consumption of eggs. The administration of this law was vested in the State Department of Public Health, which was empowered to establish forthwith and from time to time specific grades or standards of quality, size, or weight to govern the sale of eggs for human consumption. It was definitely provided that such grades or standards should not permit the sale of eggs of poorer quality than was permitted by the grading standards established from time to time by the United States Department of Agriculture Bureau of Agricultural Economics. The State Department of Public Health has ruled that eggs rating lower than U. S. Standards shall not be sold to the retail trade. The grades prescribed by the State Department of Public Health are modeled upon the retail grades drawn up by the United States Department of Agriculture Bureau of Agricultural Economics.

Section 5 of the Egg Law prescribes that all retailers of eggs (other than producers selling their own eggs) shall notify purchasers or intending purchasers by suitable sign or label of the exact grade or quality, and the size or weight of all eggs exposed for sale. In order to protect the retailer, who in most cases is not in a position to judge the quality of eggs, section 6 provides that every person selling eggs to a retailer shall furnish him with an invoice showing the exact grade or quality, and the size or weight of such eggs according to the standards prescribed by the State Department of Public Health. These invoices have to be kept by the retailer for a period of 30 days and must be available for inspection by accredited inspectors or representatives of the State Department of Public Health.

It has been pointed out above that the grading of eggs entering into the wholesale trade is far from satisfactory in southern California. Although the Produce Exchange of Los Angeles has from time to time amended its regulations so that its wholesale grades of eggs comply more or less with the grading standards prescribed by the State Department of Public Health, the extent and efficiency of the grading of eggs intended for local consumption must depend largely upon the effectiveness of the retail inspection services pro-

vided for under the California Egg Law.¹⁴ While the purpose of the Egg Law is sound and in the interests of all concerned (producers, consumers, and the trade alike), the practical application of the retail inspection service has been criticized by many in the wholesale trade.

Supervision of the egg sales of the thousands of retail stores in southern California is a big task. The State Department of Public Health has not enough inspectors to undertake all this work. Much of the work must necessarily be done by the various city health departments. Unfortunately, it has not been easy to secure the desired cooperation from many cities in this matter in the past. In some cases the local city authorities have not had a sufficient number of trained men; in other cases the city authorities have been opposed or unwilling to undertake this inspection service.

In any case, retail egg inspectors are faced with many practical difficulties. It has already been pointed out that the quality of eggs can deteriorate very rapidly, especially in warm weather. It is thus possible that eggs exposed for sale by a retailer may be of a lower grade and quality than when they were sold by a wholesale dealer. Furthermore, some retailers mix eggs bought from several different persons. As a result it is difficult to ascertain who is responsible for the inferior quality of eggs.

Under the circumstances it is possible for some wholesale dealers, hucksters, and farmers to sell uncandled and poorly graded eggs to retailers with little fear of detection. This state of affairs places those firms which go to the expense of careful sorting and candling at a distinct disadvantage with competitors who do not candle. The State Department of Public Health is doing its best to make the retail grading inspection more effective. During 1930 it was able to secure fuller cooperation from the health departments in several cities and efforts are still being made to induce other city health authorities to give more attention to this work. There is evidence, too, that many of the larger retail firms are purchasing greater quantities of eggs from concerns which size and candle carefully.

Consumer Preference.—The question arises as to what extent consumers are able to judge the quality of eggs bought by them. There is a distinct consumer prejudice against storage eggs which, if sold

¹⁴ In central California the position is somewhat different. The fact that a large portion of the eggs are shipped to eastern markets and come into competition with eggs from other states necessitates strict and efficient grading by the various wholesale concerns. Moreover, the egg market in San Francisco is dominated by relatively few concerns which have set a high standard for sales to the retail trade. Hucksters handle very small quantities of eggs.

as such, realize lower prices than eggs of current production. Experience has shown, however, that well-graded storage eggs are of as good quality and palatability as currently produced eggs of equal grade. It is doubtful, therefore, whether consumers are able to tell whether good-quality eggs are of current production or from storage. Studies of consumer demand in various parts of the country and the opinion of members of the trade tend to support this view.

Many wholesale concerns, including cooperative associations, spend considerable sums of money in advertising their eggs to consumers under certain trade marks. Such advertising will be effective and profitable only where the consumer is conscious that there is a variation in the quality of eggs coming from various sources. As a rule, however, when a consumer buys 'extra' or 'special' eggs, it is doubtful whether he shows preference for eggs bearing the trade mark of this or that firm. The term 'extra' or 'special' is all the guarantee of quality the consumer expects. It is possible, nevertheless, for a wholesale firm to build up a reputation for its eggs, sold under a trade mark, with the retail trade. Retailers of eggs, as of other products, prefer to deal with wholesale firms whose products are reliable and whose trade mark is a guarantee of high and uniform quality.

The laxity of grading eggs in both the wholesale and retail markets in southern California undoubtedly had some influence on retarding the progress of the Poultry Producers of Southern California. One of the purposes for which the Association was formed was to improve the quality of eggs sold to the consumer in Los Angeles and other cities. With this purpose in view, the Association developed a very strict grading system and advertised extensively in an attempt to build up a consumer preference for a high-quality product. Such a policy, however, was expensive and would have been profitable only if the Association could have sold its eggs at a premium over those of its competitors, who did not put out a high-quality and uniform product. While the Association probably exerted considerable influence over a period of years in increasing consumer demand for better-quality eggs, it was unable to secure for itself any direct financial benefit in the form of consistently higher prices. In a market like that of Los Angeles, where price and not quality is often the main consideration, the fruits of a strict grading policy are long in maturing. In the meanwhile, however, the members had to bear the expense in the form of lower prices than those received by non-members. There was indication in 1930 that the Association was beginning to derive some benefit from this policy; some of the larger retailers were showing a decided preference for dealing with the Association.

TABLE 7
PRICES FOR EGGS IN CENTS PER DOZEN AT NEW YORK, SAN FRANCISCO, AND LOS ANGELES
TOP QUOTATIONS BY 10-DAY PERIODS, 1923-1929

Month and 10-day period	1923			1924			1925			1926			1927			1928			1929			
	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	Pacific Coast at N.Y.	Extras at S.F.	Extras at L.A.	
January																						
1st ten days.....	56.5	47.0	48.0	54.0	45.5	45.0	67.5	55.0	58.0	51.0	41.0	39.0	55.0	42.0	50.0	55.5	36.0	41.0	48.0	36.0	44.0	
2nd ten days.....	53.0	42.0	42.0	53.0	41.5	40.0	67.0	56.5	58.0	48.0	41.5	39.0	48.0	34.5	42.0	57.5	36.5	51.5	35.5	51.5	36.0	41.0
3rd ten days.....	54.0	40.0	39.5	54.5	40.5	40.0	54.5	56.0	57.0	46.0	38.0	39.5	46.3	31.0	32.5	50.5	34.0	32.0	51.0	33.0	36.0	
February																						
1st ten days.....	47.0	34.5	32.0	55.0	47.5	35.0	60.0	42.5	40.0	42.5	31.0	35.5	45.0	27.0	26.5	42.5	27.0	25.0	44.5	25.0	31.0	
2nd ten days.....	47.0	31.5	31.0	49.0	35.0	31.0	48.0	34.5	30.0	44.5	26.5	29.0	42.0	25.5	25.5	42.0	24.0	25.0	50.0	27.0	28.5	
3rd ten days.....	46.0	30.5	27.0	40.3	27.0	26.0	41.5	31.5	29.5	43.5	27.5	29.0	35.0	22.0	24.5	37.0	25.0	25.0	54.0	28.0	27.5	
March																						
1st ten days.....	43.0	27.5	26.5	34.0	25.0	26.0	40.0	35.0	32.5	38.8	27.0	32.0	34.5	24.0	23.5	37.0	25.0	25.0	47.5	25.0	28.0	
2nd ten days.....	41.5	28.5	27.0	34.5	26.0	26.5	41.0	36.5	33.5	39.5	27.0	31.0	34.0	24.0	23.5	37.5	25.0	25.0	39.0	26.0	28.0	
3rd ten days.....	40.0	29.0	29.5	35.8	27.0	28.0	42.0	34.0	33.5	40.0	27.5	32.5	35.0	24.0	23.5	37.5	25.0	25.0	36.5	26.5	29.5	
April																						
1st ten days.....	40.0	30.0	31.0	36.0	27.0	28.0	42.0	34.0	33.0	40.0	28.5	33.0	36.0	24.0	23.5	38.0	25.0	25.0	36.5	25.0	29.5	
2nd ten days.....	48.8	31.5	31.0	37.0	27.0	28.0	40.0	33.5	33.5	39.0	27.5	33.0	36.0	24.0	23.5	38.0	25.0	26.0	37.0	26.0	30.0	
3rd ten days.....	40.8	31.5	31.0	36.0	27.5	27.0	39.0	34.0	37.0	39.0	28.5	34.0	35.0	24.0	23.5	38.0	25.0	25.0	37.0	28.0	31.5	
May																						
1st ten days.....	40.8	32.5	31.0	35.0	26.5	26.0	40.0	34.0	36.0	39.0	28.0	35.5	35.0	24.0	23.0	38.0	27.0	25.0	38.5	30.5*	33.0	
2nd ten days.....	39.0	30.5	31.0	36.0	26.5	27.0	41.0	36.0	38.0	39.0	28.5	34.0	35.0	24.5	23.0	38.0	26.0	25.5	38.5	30.5	33.0	
3rd ten days.....	38.0	33.0	31.0	36.0	31.0	34.0	42.0	37.0	39.5	39.0	30.0	34.0	35.0	24.0	24.0	38.0	26.5	27.5	39.5	32.5	34.5	

* Beginning May 1, 1929, prices were reported on retail grades instead of wholesale grades.

Source of data:
Federal

PRICES OF EGGS IN LOS ANGELES AND OTHER MARKETS

Prices of eggs in Los Angeles tend to follow the prices of eggs in San Francisco and New York (table 7 and figure 2). Several investigators¹⁵ have shown that egg prices in several United States markets follow the major fluctuations of New York prices. An analysis of the principal factors influencing egg prices is, therefore, primarily concerned with a study of New York egg prices. It is not intended, however, to go into such an analysis here.

PRICES OF EGGS AT NEW YORK, SAN FRANCISCO, AND LOS ANGELES BY 10-DAY PERIODS, 1923-1929

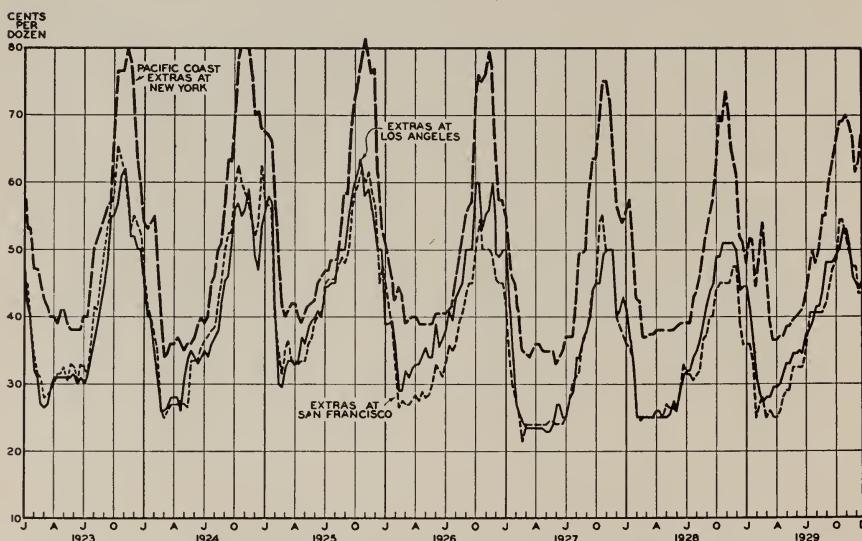


Fig. 2.—The Los Angeles and San Francisco egg markets tend to follow the major fluctuations in egg prices in New York. (Data from table 7.)

New York and California Egg Prices.—It will be noted from figure 2 that in the early months of the year, egg prices at San Francisco and Los Angeles fall somewhat earlier and reach the low point of the spring price decline before New York prices. Likewise, San Francisco and Los Angeles egg prices start to rise and tend to reach a peak earlier in the summer and autumn than New York prices. The reason is that the seasonal increase in egg production starts earlier

¹⁵ Voorhies, E. C. The California Poultry Industry: a statistical study. California Agr. Exp. Sta. Bul. 413:84. 1926.

Swarthout, A. V. An analysis of the business of the Poultry Producers of Central California. U. S. Dept. Agr. Cir. 111:26. 1930.

in the year in California than in the Corn Belt states owing to the milder winter climate. Similarly, the seasonal decrease in egg production starts earlier in California than in the Middle West. During the greater part of the year, however, egg prices in San Francisco tend to move at a level below those of New York by the amount of shipping and other incidental costs.

Los Angeles and San Francisco Egg Prices.—As was stated above, Los Angeles egg prices follow the major fluctuations of San Francisco and New York prices. It is apparent from figure 2 that Los Angeles and San Francisco prices are in close agreement. Nevertheless, it is evident that the two markets show independent strength or weakness at times. Special situations may arise in either market, such as supplies too scanty or abundant for local consumption.

Since 1926, however, there has been a tendency for Los Angeles prices to be at a 'shipping-difference' above San Francisco prices. Yet, at times, Los Angeles prices have fallen below San Francisco prices. This situation characterizes the Los Angeles egg market as an import market most of the time but as an export market part of the time. This same situation has a bearing on the function of a cooperative egg-marketing organization in the Los Angeles territory. During the time when the Los Angeles market is, from a price standpoint, an export market, it is of advantage to producers in the territory to have an organization functioning that will either ship the surplus eggs or store them.

Seasonal Price Trends at Los Angeles.—The average seasonal price trend for eggs at Los Angeles is shown in figure 3.

It will be noted that prices declined rapidly from the first part of January to the first part of March. In some years, this decline was temporarily checked during the middle of January. This may be explained by the fact that during the winter, severe weather frequently checks production in the Middle West and East; this is reflected by a rise in prices in the egg markets throughout the country. Beginning about the middle of March, Los Angeles egg prices tended to rise and the trend was slightly upward until the end of July; from the beginning of August the trend was sharply upward until about the end of October.

The marked seasonal swings in the egg market have induced various agencies to purchase considerable quantities in the spring months and place them in storage to be sold during the fall. However, the storage of eggs is not as profitable as figure 3 would indicate. Figure 3 shows the trend in prices for fresh eggs. Data are not available on fall prices of storage eggs in Los Angeles. It is generally

known, however, that fall prices of storage eggs are not as high as fall prices of fresh eggs.

The relation of seasonal egg-price trends at Los Angeles to storage operations and trade practices is of importance. As was stated above, data are not available on fall prices of storage eggs. These eggs are available in wholesale lots but prices have not been quoted by any agency. It is a common practice of the wholesale trade to work the storage eggs in with eggs of current production for sale to retailers in the fall of the year. This practice, sometimes referred to as 'boot-

EGG PRICE TREND AT LOS ANGELES BY 10-DAY PERIODS, 1917-1929

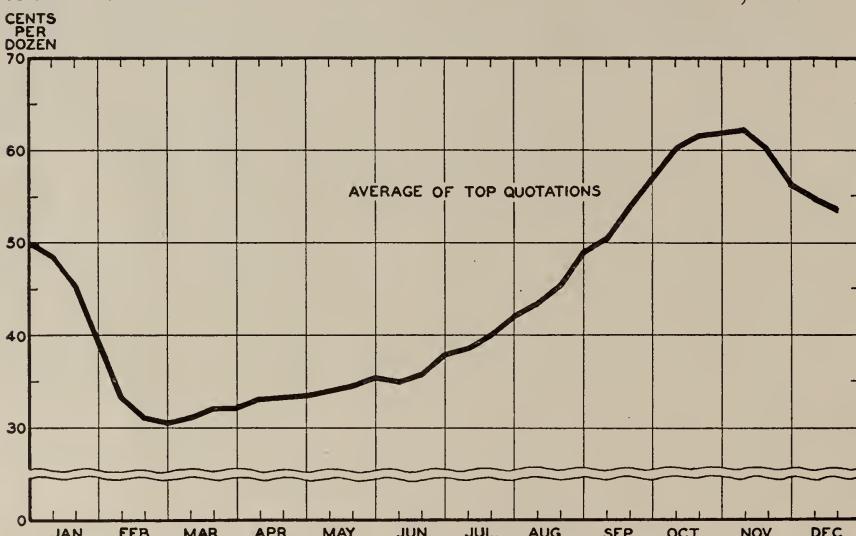


Fig. 3.—The low point in the seasonal egg price decline in Los Angeles is usually reached during the first part of March. Beginning about the middle of March, prices tend to rise until the end of July, when the trend is sharply upward until the last of October.

legging,' is entirely within the state grading regulations. The California Egg Law provides for the sale of eggs on a quality basis and not on a 'fresh' or 'storage' basis. However, since it is difficult to detect the difference between a storage egg that candles Extra and a fresh egg that candles Special, some dealers have disposed of storage eggs at a premium as Specials. This practice, also referred to by the trade as 'bootlegging,' is in violation of the state grading regulations.¹⁶

¹⁶ The term 'bootlegging' is used in a third sense on the Los Angeles market. According to the rules of the Produce Exchange, eggs sold on the Exchange must be of current production. If storage eggs are sold as Extras on the Exchange this practice is referred to as 'bootlegging.'

The foregoing situation has a bearing on the operations of a cooperative poultry association in Los Angeles. Many producers interviewed in the course of this study stated that they received for part of the year, prices for eggs equal to the wholesale market quotation. Obviously, if there is no apparent margin between wholesale and farm prices the wholesale dealers must resort to some other means of providing for the expense of collecting, handling, sorting, and candling (where done). It was stated generally that most members of the wholesale trade rely upon profits from handling storage eggs as above described to cover the major portion of such expenses. If an association does not adopt the practices of competitors but sells its storage eggs as such, the returns to members will be lower than the returns of competitors to nonmembers. On the other hand, if an association adopts the practice of selling top-candled storage eggs as Specials it will be liable to prosecution.

Another important factor arising out of the above method of handling storage eggs is that in some years when storage operations have not been profitable, it has been the practice of some members of the trade to reduce the price paid to producers in relation to wholesale prices during the last few months of the year. Occasionally, if members of the trade find themselves with heavy storage holdings they may even refuse to purchase currently produced eggs and supply their regular customers out of their storage holdings. When this happens, producers find themselves without a market for their current supply of eggs. In such an event a cooperative association renders a distinct service by insuring a permanent outlet for eggs.¹⁷

The Produce Exchange of Los Angeles.—An understanding of daily price fluctuations in the Los Angeles market is predicated upon a knowledge of the operations of the Produce Exchange of Los Angeles.

The most important function of the Exchange is to establish the local daily wholesale prices for the different grades of eggs of current production. The wholesale prices so established are used as a basis for prices to be paid to producers and for sales to the retail trade.¹⁸

The Secretary of the Exchange receives the daily price quotations on eggs from San Francisco, Chicago, and New York. These are

¹⁷ This happened in 1930. Many producers during the latter part of 1930 found that the usual buyers of their eggs either refused to handle their current supply or would handle them only at prices well below wholesale prices.

¹⁸ Prices to producers are 'at the market,' 'below the market,' or 'above the market.' Prices to retailers are usually 'above the market.'

posted in the Exchange offices. The members of the Exchange meet daily at 4 p. m. and begin trading at the call of the Secretary for bids and offers on the various grades of eggs. These bids and offers may be for lots as small as 10 cases of eggs. The last sale, bid, or offer for each grade establishes the wholesale quotation for that day. The actual consummation of a sale is not necessary. It is thus possible that the price for thousands of cases of eggs of a particular grade bought or sold by the trade in Los Angeles daily may be established without the sale of a single case of eggs on the Produce Exchange.

Prices of eggs in other markets undoubtedly influence members of the Produce Exchange in making bids and offers. The fact, however, that daily prices frequently fluctuate with little or no apparent change in available supplies would seem to indicate that the personal element is an important factor in establishing prices. As sales over the Produce Exchange may be made in very small quantities (10 cases at a time) price manipulation is by no means an impossibility. A few dealers by agreement among themselves may raise or lower daily prices to suit their own ends.¹⁹

Eggs received from local producers or from shippers in other markets are paid for on the basis of the wholesale prices on the day of receipt. It would, therefore, be to the advantage of any dealer expecting a big shipment of eggs to lower prices on the day of receipt and raise them on the following days when the eggs are being sold.

It seems highly desirable that some improvement should be effected in the method by which wholesale prices for eggs are established in Los Angeles.²⁰ It is in the interest of both producers and the more responsible members of the trade to eliminate price manipulation as much as possible and to insure that prices established on any day are as nearly as possible a correct reflection of all supply and demand conditions. While temporary conditions of shortage or oversupply may cause occasional fluctuations of prices in individual markets, there seems to be no logical reason why prices in two markets as closely related as those of San Francisco and Los Angeles should be out of line for any length of time.

¹⁹ This opinion is held by several members of the Produce Exchange and is borne out by personal observation of the authors.

²⁰ One possible way of effecting an improvement is to increase the minimum number of cases that constitute a sale on the Produce Exchange. It is doubtful, however, if the Exchange will ever prove a satisfactory price-registering mechanism until trading in U. S. Extras is conducted on the Exchange. At present the Exchange does not have a grade which compares strictly with the U. S. Extra grade.

Character of Daily Price Fluctuations.—A study of the daily fluctuations of prices on the New York, San Francisco, and Los Angeles markets shows that during certain periods of the year, Los Angeles prices fluctuate more than do prices at San Francisco (see table 8 and fig. 4). During the greater part of the year the San Francisco market exhibits a 'stair-step' type of fluctuation. This is also true of the Los Angeles market during part of the year. However,

DAILY PRICES OF EGGS AT NEW YORK, SAN FRANCISCO,
AND LOS ANGELES, 1929

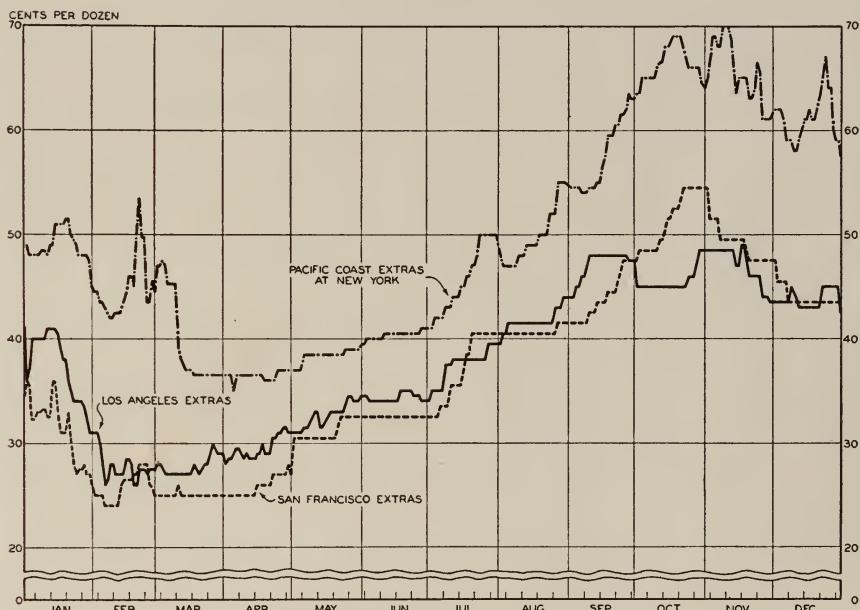


Fig. 4.—During the greater part of the year the San Francisco market exhibits a 'stair-step' type of price fluctuation. This is also true of the Los Angeles market during a part of the year. However, during the period from March to June, the daily price fluctuations are of a 'saw-toothed' type.

during the period from March to June, the daily price fluctuations for the latter are of a 'saw-toothed' type. The reason for the difference between the two markets is that on the San Francisco market the Poultry Producers of Central California dominates the situation and quotations are based on actual sales, while in Los Angeles no organization is in a position to control the situation and price quotations are based on a relatively small proportion of the actual sales in the market.

TABLE 8
PRICES FOR EGGS IN CENTS PER DOZEN AT NEW YORK, SAN FRANCISCO, AND LOS ANGELES.
CLOSING QUOTATIONS BY DAYS—1929

Date	January			February			March			April			May			June				
	Pacific Coast Extras N. Y.	Extras S. F.	L. A.	Pacific Coast Extras N. Y.	Extras S. F.	L. A.	Pacific Coast Extras N. Y.	Extras S. F.	L. A.	Pacific Coast Extras N. Y.	Extras S. F.	L. A.	Pacific Coast Extras N. Y.	Extras S. F.	L. A.	Pacific Coast Extras N. Y.	Extras S. F.	L. A.		
1	* 34.5	44.0	44.5	25.0	31.0	47.0	25.0	28.0	31.0	25.0	36.5	25.0	28.0	37.0	30.5†	31.0	39.5	32.5	34.5	
2	48.0	36.0	44.5	25.0	31.0	.....	25.0	28.0	36.5	25.0	28.5	25.0	28.5	37.0	30.5	31.0	30.5	32.5	34.5	
3	47.0	35.5	37.0	43.5	25.0	30.0	47.5	25.0	27.5	35.0	25.0	29.0	25.0	29.5	37.0	30.5	31.0	40.0	32.5	34.0
4	47.0	32.0	40.0	43.5	25.0	28.0	47.0	25.0	27.0	36.5	25.0	29.5	25.0	29.5	37.0	30.5	31.0	40.0	32.5	34.0
5	47.0	32.0	40.0	43.5	24.0	24.0	44.0	25.0	27.0	36.5	25.0	29.5	25.0	29.5	38.5	30.5	31.5	40.0	32.5	34.0
6	.....	.....	.....	43.0	24.0	26.0	44.0	24.0	26.5	44.0	25.0	27.0	25.0	27.0	38.5	30.5	31.5	40.0	32.5	34.0
7	47.0	32.5	40.0	41.5	24.0	24.0	44.0	24.0	25.0	44.0	25.0	27.0	25.0	27.0	38.5	30.5	31.5	40.0	32.5	34.0
8	47.0	33.0	40.0	42.0	24.0	28.0	44.0	25.0	27.0	36.5	25.0	28.5	25.0	28.5	38.5	30.5	31.5	40.0	32.5	34.0
9	47.5	33.0	40.0	42.0	24.0	28.0	44.0	25.0	27.0	36.5	25.0	29.0	25.0	29.0	38.5	30.5	33.0	40.0	32.5	34.0
10	.....	33.5	40.0	42.5	24.0	27.0	39.0	26.0	27.0	36.5	26.0	28.5	26.0	28.5	38.5	30.5	33.0	40.5	32.5	34.0
11	47.0	32.5	41.0	42.5	24.0	27.0	38.0	25.0	27.0	36.0	25.0	28.5	25.0	28.5	38.5	30.5	33.0	40.5	32.5	34.0
12	48.0	32.5	41.0	42.0	24.0	27.0	38.0	25.0	27.0	36.0	25.0	28.5	25.0	28.5	38.5	30.5	33.0	40.5	32.5	34.0
13	.....	.....	.....	42.5	24.0	27.0	37.5	25.0	27.0	36.0	25.0	28.5	25.0	28.5	38.5	30.5	31.5	40.5	32.5	34.0
14	48.0	36.0	41.0	43.5	26.5	27.0	37.0	25.0	27.0	36.0	26.0	29.0	26.0	29.0	38.5	30.5	31.5	40.5	32.5	34.0
15	51.0	36.0	41.0	44.5	26.5	28.5	37.0	25.0	27.0	36.0	26.0	29.0	26.0	29.0	38.5	30.5	32.0	40.5	32.5	34.0
16	51.0	33.0	40.5	46.0	26.5	28.5	37.0	25.0	27.0	36.0	26.0	29.0	26.0	29.0	38.5	30.5	32.5	40.5	32.5	34.0
17	51.0	31.0	39.0	46.0	26.5	28.0	36.0	25.0	27.0	36.0	26.0	29.0	26.0	29.0	38.5	30.5	33.0	40.5	32.5	34.0
18	51.0	31.0	38.0	46.0	26.5	28.0	36.5	25.0	27.0	36.5	26.0	29.0	26.0	29.0	38.5	30.5	33.0	40.5	32.5	34.0
19	51.5	31.0	38.0	45.0	27.0	26.0	36.5	25.0	27.5	37.0	26.0	29.0	26.0	29.0	38.5	30.5	33.0	40.5	32.5	35.0
20	.....	.....	.....	50.0	27.0	26.0	36.5	25.0	27.0	37.0	26.0	29.0	26.0	29.0	38.5	30.5	33.0	40.5	32.5	35.0
21	.....	33.0	36.0	53.5	28.0	27.5	36.5	25.0	27.5	37.0	26.0	29.0	26.0	29.0	38.5	31.5	33.0	40.5	32.5	35.0
22	50.0	30.0	35.0	49.5	28.0	27.5	36.5	25.0	28.0	37.0	27.0	30.5	27.0	30.5	38.5	32.5	33.0	40.5	32.5	35.0
23	49.5	28.0	34.0	49.5	28.0	27.5	36.5	25.0	28.0	37.0	27.0	30.5	27.0	30.5	38.5	32.5	33.0	40.5	32.5	35.0
24	49.0	27.0	34.0	43.5	28.0	27.0	36.5	25.0	29.0	37.0	27.0	31.0	27.0	31.0	39.0	32.5	34.5	40.5	32.5	34.5
25	48.0	27.5	34.0	43.5	28.0	27.0	36.5	25.0	29.0	37.0	27.0	31.0	27.0	31.0	39.0	32.5	34.5	40.5	32.5	34.5
26	48.0	27.5	34.0	43.5	26.0	27.5	36.5	25.0	29.0	37.0	27.0	31.0	27.0	31.0	39.0	32.5	34.5	40.5	32.5	34.5
27	.....	.....	.....	45.5	26.0	27.5	36.5	25.0	29.0	37.0	27.0	31.0	27.0	31.0	39.0	32.5	34.0	41.0	32.5	34.0
28	48.0	28.0	33.5	44.5	25.0	27.5	36.5	25.0	29.0	37.0	27.0	31.0	27.0	31.0	39.0	32.5	34.0	41.0	32.5	34.0
29	48.0	27.0	32.5	32.5	.....	.....	36.5	25.0	29.0	28.0	31.0	31.0	31.0	39.0	32.5	34.0	32.5	32.5	34.0	
30	47.5	27.0	31.0	31.0	.....	.....	36.5	25.0	29.0	27.0	31.0	31.0	31.0	39.5	32.5	34.5	32.5	32.5	34.0	
31	45.0	26.0	31.0	31.0	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

* Dashes indicate that there are no data available. No quotations are made on Sunday.

† Beginning May 1, 1928, prices in San Francisco were reported on retail grades instead of on wholesale grades.

TABLE 8—Continued

Date	July			August			September			October			November			December		
	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	Pacific Coast Extras S. F. N. Y.	Extras L. A.	
1	41.0	32.5	34.0	48.0	40.5	39.5	.....	41.5	44.0	48.5	45.0	65.0	54.5	48.5	47.5	43.5	43.5	
2	41.0	32.5	35.0	47.0	40.5	40.5	.....	41.5	44.0	48.5	45.0	67.0	51.5	48.5	62.0	45.5	43.5	
3	42.0	32.5	35.0	47.0	40.5	40.5	54.5	41.5	44.0	65.0	45.0	69.0	51.5	48.5	62.0	45.5	43.5	
4	42.0	32.5	35.0	47.0	40.5	40.5	41.5	41.5	45.0	65.0	48.5	69.0	61.0	48.5	61.0	45.5	43.5	
5	42.0	33.5	35.5	47.0	40.5	41.5	54.5	41.5	45.0	65.0	48.5	69.0	51.5	48.5	59.0	45.5	43.5	
6	42.0	33.5	35.5	47.0	40.5	41.5	54.0	41.5	46.0	65.0	48.5	69.0	51.5	48.5	59.0	45.5	43.5	
7	.....	.....	.....	47.0	40.5	41.5	54.0	41.5	46.0	65.0	48.5	69.0	68.0	49.5	48.5	59.0	43.5	43.5
8	43.0	33.5	37.5	47.0	40.5	41.5	.....	41.5	44.0	65.0	48.5	69.0	45.0	70.0	49.5	48.5	48.5	43.5
9	43.0	33.5	37.5	48.0	40.5	41.5	41.5	44.0	47.0	65.0	48.5	69.0	45.0	70.0	49.5	48.5	48.5	43.5
10	44.0	34.5	37.5	48.0	40.5	41.5	54.5	42.5	48.0	66.0	48.5	69.0	45.0	65.0	58.0	48.5	45.0	43.5
11	44.0	35.5	38.0	48.0	40.5	41.5	54.5	42.5	48.0	66.5	49.5	69.0	45.0	65.0	58.0	48.5	44.0	43.5
12	44.0	35.5	38.0	48.0	40.5	41.5	54.5	42.5	48.0	66.5	49.5	69.0	45.0	65.0	59.0	48.5	43.0	43.5
13	.....	35.5	38.0	49.0	40.5	41.5	55.0	43.5	48.0	66.5	49.5	69.0	45.0	65.0	59.0	48.5	43.0	43.0
14	.....	35.5	38.0	49.0	40.5	41.5	43.5	43.5	48.0	68.0	50.5	69.0	45.0	63.5	49.5	47.0	43.5	43.0
15	45.0	35.5	38.0	49.0	40.5	41.5	.....	.....	.....	68.0	51.5	69.0	45.0	65.0	49.5	47.0	43.5	43.0
16	45.0	36.5	38.0	49.0	40.5	41.5	56.5	43.5	48.0	70.0	51.5	69.0	45.0	65.0	49.5	47.0	43.5	43.0
17	46.0	38.5	38.0	49.0	40.5	41.5	57.5	43.5	48.0	69.0	52.5	69.0	45.0	65.0	49.5	47.0	43.5	43.0
18	46.0	38.5	38.0	49.0	40.5	41.5	59.5	44.5	48.0	69.0	52.5	69.0	45.0	65.0	49.5	47.0	43.5	43.0
19	47.0	39.5	38.0	49.0	40.5	41.5	59.5	44.5	48.0	69.0	52.5	69.0	45.0	65.0	48.5	46.0	43.5	43.0
20	47.0	40.5	38.0	50.0	40.5	41.5	59.5	44.5	48.0	69.0	52.5	69.0	45.0	65.0	48.5	46.0	43.5	43.0
21	.....	40.5	38.0	50.0	40.5	41.5	60.5	44.5	48.0	69.0	53.5	69.0	45.0	63.0	47.5	46.0	43.5	43.0
22	48.0	40.5	38.0	50.0	40.5	41.5	.....	.....	.....	68.0	54.5	69.0	45.0	64.0	47.5	46.0	43.5	43.0
23	50.0	40.5	38.0	52.0	40.5	41.5	60.5	45.5	48.0	67.0	54.5	69.0	45.0	66.5	47.5	46.0	43.5	43.0
24	50.0	40.5	38.0	52.0	40.5	41.5	61.0	46.5	48.0	66.0	54.0	69.0	46.0	65.0	48.5	46.0	43.5	43.0
25	50.0	40.5	38.0	52.0	40.5	41.5	61.0	47.5	48.0	65.0	54.5	69.0	46.0	65.5	47.5	46.0	43.5	43.0
26	50.0	40.5	39.5	52.0	40.5	41.5	62.0	47.5	48.0	66.0	54.5	69.0	46.0	61.0	47.5	44.0	43.5	43.0
27	50.0	40.5	39.5	55.0	41.5	43.0	63.5	47.5	47.5	66.0	54.5	69.0	46.0	61.0	47.5	44.0	43.5	43.0
28	.....	40.5	39.5	55.0	41.5	43.0	63.0	47.5	47.5	66.0	54.5	69.0	46.0	61.0	47.5	44.0	43.5	43.0
29	56.0	40.5	39.5	55.0	41.5	44.0	64.0	47.5	47.5	66.0	54.5	69.0	46.0	61.0	47.5	43.5	43.0	43.0
30	56.0	40.5	39.5	55.0	41.5	44.0	63.0	47.5	47.5	64.5	54.5	69.0	46.0	61.0	47.5	43.5	43.0	43.0
31	49.0	40.5	39.5	54.5	41.5	44.0	.....	.....	.....	64.0	54.5	69.0	46.0	61.0	47.5	43.5	43.0	42.0

Source of data:

Federal-State Market News Service, San Francisco office. Dairy and poultry products, daily issues; and Produce Exchange of Los Angeles, monthly reports.

Daily Strength and Weakness in Los Angeles Egg Prices.—The daily egg price fluctuations on the Los Angeles market are a matter of considerable concern among southern California poultrymen. The price-making activities of the Los Angeles Produce Exchange were discussed above (page 26). These are commonly known. It was stated that as a result of the plan of operation of the Exchange, prices quoted did not accurately reflect market conditions; that there was a tendency for prices to advance on certain days of the week and to decline on certain other days. Some producers contended that wholesale dealers made heavy collections in the country on the days during the week when prices were lowest and as a result obtained an advantage.

TABLE 9

DAILY VARIATIONS IN WHOLESALE EGG PRICES AT LOS ANGELES
1921-1929

Year	Monday	Tuesday	Wednesday	Thursday	Friday
Per cent of times quotations were higher than on the preceding day					
1921.....	38	33	21	25	31
1922.....	42	23	23	27	35
1923.....	19	19	15	21	31
1924.....	21	21	17	21	27
1925.....	33	25	27	19	23
1926.....	38	27	29	27	25
1927.....	31	19	25	19	15
1928.....	28	17	17	19	19
1929.....	25	13	10	17	31
Average.....	31	22	20	22	26
Per cent of times quotations were lower than on the preceding day					
1921.....	21	25	25	17	17
1922.....	21	25	19	21	13
1923.....	19	25	12	10	12
1924.....	15	17	17	21	4
1925.....	27	33	29	23	25
1926.....	21	33	19	25	13
1927.....	13	15	13	15	12
1928.....	6	19	13	15	8
1929.....	25	25	21	12	8
Average.....	19	24	19	18	12
Per cent of times quotations were unchanged compared with preceding day					
Average.....	50	54	61	60	62

Source of data: Compiled from the records of the Produce Exchange of Los Angeles.

It was impossible with the statistical data available to determine the various factors responsible for daily price fluctuations at Los Angeles. However, an analysis of daily quotations for a period of years (1921-1929) shows there was a tendency for the Monday and Friday quotations to advance more often than the quotations of other days of the week. Monday quotations advanced 31 per cent of the time; Friday 26 per cent; while Tuesday quotations advanced 22 per cent of the time; Wednesday 20 per cent; and Thursday 22 per cent (table 9). The same analysis showed that Tuesday quotations declined more frequently and Friday quotations less frequently than any other day during the week. Tuesday quotations declined 24 per cent of the time while Friday quotations declined only 12 per cent of the time.

One factor which apparently influences daily price fluctuations is the daily variation in demand. An indicator of the variation in demand is the volume which was sold each day during the week by the Poultry Producers of Southern California (table 10). It will be noted that the largest volume of sales was usually on Friday. This was stated to be due to the larger volume of sales by retailers on Saturdays.

TABLE 10

DAILY VARIATION IN VOLUME OF SALES TO RETAILERS IN LOS ANGELES

Day	Per cent of total for week*
Monday.....	13.57
Tuesday.....	15.04
Wednesday.....	13.95
Thursday.....	15.85
Friday.....	23.66
Saturday.....	17.93
Total.....	100.00

* Based on the average of weekly sales for the year 1929.

Source of data:

Compiled from records of the Poultry Producers of Southern California for 1929.

The influence of the volume of sales on daily price fluctuations is not immediately apparent because sales are made on the previous day's quotation. Table 11 shows the volume of sales made on the daily quotation together with the percentage of times daily prices were higher or lower. Here it will be noted that there is a tendency for prices to advance on those days when the volume of sales is large and for prices to decline on those days when the volume of sales is small.

TABLE 11

DAILY VARIATION IN WHOLESALE EGG PRICES AND VOLUME SOLD TO RETAILERS

Day of week	Per cent of times prices were higher than preceding day	Per cent of times prices were lower than preceding day	Volume of sales sold on the daily quotations, per cent of total for week
	1	2	3
Monday.....	31	19	15.04
Tuesday.....	22	24	13.95
Wednesday.....	20	19	15.85
Thursday.....	22	18	23.66
Friday and Saturday.....	26	12	31.50

Source of data:

Cols. 1 and 2: Data from table 9.

Col. 3: Data from table 10.

**ORGANIZATION OF THE POULTRY PRODUCERS OF
SOUTHERN CALIFORNIA, INC.**

Condition Leading to Formation.—As a result of dissatisfaction among poultry producers in southern California with the price and quality of feeds they were purchasing, an organization known as the Poultrymen's Cooperative Association²¹ was formed in 1912 to manufacture and sell feeds. It was not intended in the beginning that this association should handle poultry and eggs, but upon the request of members this activity was also undertaken. It was soon found, however, that while the milling and sale of feeds was immediately successful and beneficial to members, the marketing of poultry and eggs proved far from satisfactory. Losses were sustained on the sale of poultry products in accounts receivable and on unwise storing of poultry. As the handling of poultry and eggs encroached on the space needed for an expanding feed business it was decided to discontinue handling these lines.

In 1915, however, a group of members of the Poultrymen's Cooperative Association held meetings to discuss the possibilities of marketing their own eggs and an organization known as the Federated Poultrymen of Southern California was organized. It operated for a year and marketed its eggs through a wholesale dealer who graded the eggs, kept the records, and returned the proceeds of sales to the Association.

²¹ Later reorganized under the name of The Poultrymen's Cooperative Milling Association.

This arrangement, however, did not prove satisfactory to the Association, for it was considered that the dealer did not sell the members' eggs to best advantage.

Shortly thereafter the State Marketing Commission was formed, with Colonel Harris Weinstock as State Market Director. Under Colonel Weinstock's guidance the formation of cooperative associations to handle agricultural products was actively promoted. With his assistance the Poultry Producers of Southern California, Inc. was organized in December, 1916 and commenced operations on January 1, 1917. The new Association took over most of the members of the Federated Poultrymen of Southern California and also a large part of its business.

Articles of Incorporation.—When the poultry Producers of Southern California, Inc. was formed there were no special California laws governing the organization and operation of cooperative associations. The Poultry Producers of Southern California thus was formed and registered under the general corporation laws of California. While it was intended that the Association should operate on cooperative lines, the Articles of Association embodied many of the usual provisions for a corporation. No limitation was set upon dividends payable and voting was on a basis of stock held. The principal place of business was to be Los Angeles, California. The original capital stock authorized was \$100,000 consisting of 10,000 shares of a par value of \$10 each. On August 3, 1921, the authorized capitalization was increased to \$250,000.

By-Laws.—The by-laws of the Poultry Producers of Southern California, Inc., originally adopted on December 28, 1916, were amended from time to time, the latest amendments having been passed at the annual stockholders' meeting held on January 25, 1929.

Article II of the amended by-laws stated:

"This corporation was organized by poultry producers with the primary purpose of promoting the interests of the poultry industry of southern California, in close cooperation with the State and Federal authorities and along cooperative lines suggested and approved by such authorities, without particular regard to the profits to be earned by the corporation. With this end in view the corporation has entered into contracts with its stockholders covering the purchase of all eggs produced by the signers thereof and has undertaken to distribute and market such egg production, in the interest of the producing and consuming public, to the end that the producer may receive a reasonable return for his product and that the consumer may at all times be assured of a constant supply at a reasonable price, with regard to the cost of production."

"To accomplish this purpose it is essential that the stockholdings of the corporation be confined, as nearly as may be, to those actually engaged in the poultry business, who have executed, or may be willing to execute Produce Sales Agreements similar to those executed by the original promoters and stock subscribers."

The corporate powers of the Poultry Producers of Southern California, Inc. were vested in a board of fourteen Directors, eight of whom constituted a quorum. They were elected annually at the annual stockholders' meeting and served for one year and until their successors were elected and qualified. Thirteen of the directors were to be poultry producers and stockholders apportioned by residence (stockholdings permitting) to represent the various counties in which the Association operated. The fourteenth director could be a person proposed by or authorized to represent the State Market Director. The number of elected directors apportioned to the various counties varied from time to time. During the year 1929, representation was apportioned as follows: six directors from Los Angeles, two from San Bernardino, one each from Orange, San Diego, and Riverside counties, and two from the territory covered in Tulare, Kings, and Kern counties to which the Association extended its operations in 1928. The counties having more than one director were divided into districts. Primary nominating elections were held in each district or county at least seven days before the annual meeting. Voting for a candidate for director was confined to stockholders residing in the particular district or county from which the candidate was nominated. The candidates receiving the highest number of votes at the primary nomination elections in each district were presented at the annual meeting for election as directors for the ensuing year. In the event that there was no person, otherwise duly qualified, residing in any one or more of the counties or districts, the residential qualifications were waived and a director (or directors) was elected at large, irrespective of residence. The duties and powers of directors were those usually provided in the by-laws of corporations.

Article IX provided for the appointment of an executive committee if the board of directors deemed this necessary. No executive committee has been appointed since 1924.

The regular annual stockholders' meeting was held on the second Monday of February in each year. No notice of such meeting was necessary. Special meetings could be called by the President of the corporation whenever he saw fit or upon the request of persons holding one-third of the stock. Ten days' notice of such special meetings had to be given to stockholders. At all regular and special

meetings voting was on a basis of stockholdings, represented in person or by proxy. A majority of the stock had to be represented for a meeting to have a quorum. The by-laws could be amended as follows:

1. At a regular or special stockholders' meeting by a vote (in person or by proxy) representing two-thirds of the stock.
2. By the written consent of holders of two-thirds of the stock filed in the office of the corporation.
3. By a four-fifths vote of the board of directors at any regular or special board meeting. Changes in the by-laws made by the board were subject to consideration and adoption at any regular or special meeting of stockholders.

Criticism of By-Laws.—Several points in these by-laws are of interest in the light of the history of the Association. It was clearly contemplated that stockholdings would be confined, as far as possible, to active shipping members. As the situation developed, however, it was possible for the amount of stock held by persons who were not active shippers to be far in excess of that held by active shippers. In the first place, as has been pointed out previously, there had been a rapid turnover of poultry producers in southern California. As a result, many persons held stock in the Poultry Producers of Southern California who had ceased raising poultry. In the second place, by the terms of the marketing agreement, to be described later, stockholders were allowed to withdraw as active shippers at the end of each financial year. Much stock could be and was held by persons who withdrew in this way. It is quite conceivable under these circumstances that as voting was on a basis of stockholdings, control of the Association could, temporarily at least, pass out of the control of those who were actively supporting it, thus destroying one of the most important features of cooperation.

Furthermore, much conflict of interest arose between the stockholders who were active shippers and those who had withdrawn. While it was stated that the corporation was to be operated without particular regard to profits, dividends ranging from 4 to 10 per cent were declared at different times. No dividends, however, were paid during the years 1928 and 1929, much to the discontent of nonactive stockholders, who considered that they should have derived some return from their investments in the Association. Dividends could have been paid only by still further reducing the payments on eggs supplied by active shippers, who were not at all willing to make this sacrifice to benefit those who would not support the Association. This fact, together with the low prices paid active shippers for eggs, in

comparison with those received by nonmembers, undoubtedly accounted for much of the criticism directed against the Poultry Producers of Southern California.

It is also stated that the aim of the corporation was "to ensure to the producer a reasonable return for his product and to the consumer a constant supply at a reasonable price *with regard to the cost of production.*" When the Association was formed there was a firm conviction on the part of producers that the Association could secure for its members returns that would cover cost of production. This Association found, as all other associations have, that the price it could obtain for its products was determined by market conditions rather than by production costs of its members.

One cannot stress too much the fallacy and danger of the "cost of production" concept with regard to prices received by producers. It is imperative that the producers of agricultural products should understand clearly that while over a period of several years returns must cover the cost of production, this cannot be insured in any particular year. The price (or prices) of a commodity is governed by conditions of supply and demand with little or no direct relation to what it may have cost an individual or a group of individuals to produce that commodity.

The outstanding features of the system of electing directors described above are that directors were elected on a basis of districts and held office for one year only. Experience has shown that both these features involve dangers and defects, especially when voting is on a basis of stockholdings and not membership. One district may have two or more men who would make excellent directors and yet such men cannot be elected because each district can have only one director. While district representation may be desirable, particularly in the case of centralized cooperatives, it is advisable that the by-laws of an association should permit one or more directors to be elected at large from among stockholders or members. This would make it possible for an association to secure the services of qualified men who would otherwise be excluded.

The election of directors to hold office for only one year may be and often is prejudicial to the best interests of a cooperative association. The business of many associations is of a very complicated nature. It takes most directors some time to become well enough acquainted with the details of operation to exercise sound judgment in their decisions. Continuity and stability of sound policies are most essential. Where, however, directors are elected for terms of only one year, it is possible that a board may consist of a sufficient number

of new members, unacquainted with details of operation, to make continuity of policy difficult of realization. It sometimes happens that a new board of directors, in order to create a favorable impression, may decrease seriously reserves built up by years of careful operation. This actually happened in the case of the Poultry Producers of Southern California (pages 47 to 53). Few new boards of directors realize just how important substantial reserves are. Not only do they have an important bearing on the financial status of the organization, but they may be the means of carrying an association over one or more difficult years. Another difficulty which a cooperative organization of the type of the Poultry Producers of Southern California would have to face is the possibility that a board of directors may represent those stockholders who are not shipping their produce to the association and whose interests clash with those who are shipping.

Most of these difficulties and defects would be avoided if directors were elected for a period of two or three years, a proportionate number retiring each year.

In cooperative associations a great deal of responsibility must, from the very nature of things, fall upon the managers. One of the most important tasks of a board of directors is to select and appoint a competent manager and to supervise in a general way his conduct of the business. A large board of directors is likely to be unwieldy and is apt to place a severe strain upon the patience and time of the manager. In such circumstances it seems far wiser to appoint a small executive committee to work in close touch with the manager and to report to the full board at stated intervals. This practice is followed by many cooperative associations with large boards of directors.

Marketing Agreement.—Each producer, in order to avail himself of the facilities of the Association, was required to execute a marketing agreement, whereby he agreed to deliver or sell to the Association all the eggs produced by himself or by members of his family, except such eggs as were required for hatching purposes or for home consumption. The last marketing agreement which came into effect on January 1, 1930 was to remain in force for successive periods of five years from the date of signing by members, so long as the producer continued in the poultry industry. Provision was made, however, for termination of the contract in the following manner:

- (1) An individual producer could withdraw upon written notice at the end of any year.
- (2) The Association could terminate the agreement with individual producers by giving written notice at the end of any year.

(3) The Association could give all its members written notice of withdrawal whenever, in the opinion of the board of directors, its marketing operations could no longer be conducted to the advantage of producers.

Such written notice in each case had to be given not less than 30 days and not more than 60 days before the time withdrawal was to become effective.

Provision was made for weekly and annual pools. The weekly pools were to be made up of all eggs delivered by producers during each week. Each weekly pool was to be credited with the net proceeds of all current sales of fresh eggs and with an amount to be advanced by the Association on all eggs placed in storage during the week or unsold on the last day of the pool. The amounts so advanced were to be based upon the estimated wholesale market price on the days of storage or on the last day of the pool. From the amounts so credited were to be deducted the estimated operating expenses, including provision for dividends on stock and for reserves and such other deductions as were specified. The balance was to be remitted to producers in proportion to their deliveries (by grade and quality).

The annual pool was to be made up of all eggs unsold on the last day of each weekly pool, including eggs placed in storage. This pool was to be credited with the net proceeds from the sale of such eggs and with any differences that might have been realized on amounts retained from the weekly pools for operating and other expenses and the amounts actually expended. After deduction of all advances and other necessary expenses any balance was to be distributed among producers in proportion to the number of eggs delivered by each producer during the course of the year.

Each producer was required on signing the contract to purchase one share of stock for each 1,000 hens (or major portion thereof) owned by him. In addition, provision was made for the deduction of 1 cent a dozen from the remittances due each producer from the weekly pools. The amounts so deducted were to be paid into a rotation fund which was to be used to retire on a basis of priority earlier issues of stock. As such stock was retired it was reissued to each producer in proportion to the amount contributed by him (in the form of the 1 cent a dozen deduction) to the rotation fund. This plan insured that each producer contributed to the capital stock of the Association in proportion to the use he made of its facilities.

In the event of breach of contract on the part of any individual producer, provision was made for the payment of liquidated damages at the rate of 5 cents a dozen during the entire period of default.

Power was granted to the board of directors, under certain conditions, to amend or alter the marketing agreement.

Comments and Criticism on Marketing Agreement.—The pooling operations appear to have been fair and equitable and in line with the handling of pools by other associations. Under the marketing agreement the producer was given the assurance that all earnings made by the Association, after deduction of operating expenses and amounts retained for reserves and for the payment of a limited dividend, would be returned to him in proportion to his contribution to the business of the Association.

The provision that individual members could withdraw at the end of any year was preferable to attempting to bind members to an association for any long period of time. Experience shows that provision for the levying of liquidated damages is a deterrent of a very doubtful nature, largely because it is difficult to discover contract violations and because of the ill will created towards the Association if large numbers of members are prosecuted. The best safeguard would be for provision to be made for an association, as it sees fit, to withdraw its facilities from members who default and not to allow such members to rejoin the Association except under certain conditions.

The principle of requiring producers to supply the capital necessary for the operation of their Association in proportion to the use they make of its facilities is sound and desirable, for producers are more likely to be loyal to and take an intelligent interest in their Association if they have a substantial investment therein. All rotation plans, however, involve a serious problem which is not always fully realized by those not acquainted with the practical working of such plans. In the first place, members of a cooperative association are primarily interested in getting as large a cash return for their produce as possible. If the deduction made from remittances is too large, members will be dissatisfied. On the other hand, if deductions are too small the rotation of capital stock will be so prolonged as to lose a part of its effectiveness. The trend in volume handled by an association is also an important factor in the rapidity of rotation. If an association's business is increasing, stock can be rotated more rapidly. On the other hand, if the volume of business is decreasing the speed of stock rotation diminishes. In the latter situation the number of stockholders may increase although the volume of business may decline, as was the case with the Poultry Producers of Southern California. If there is little fluctuation in an association's business from year to year, rotation will be at a constant rate.

Progress of the Poultry Producers of Southern California, Inc.—A picture of the progress of a cooperative organization can be obtained by analyzing the year-to-year changes that have taken place in its membership, capital, volume of business, and certain items appearing in the annual financial statements. While many of these items are not an infallible and invariable test of the status of an organization, interpreted in the light of qualitative information and with due regard to the economic conditions under which the business operates, they suggest points of weakness or strength, or causes contributing to the progress or retrogression of a business.

TABLE 12
STOCKHOLDERS, SHIPPERS, AND EGGS HANDLED BY POULTRY PRODUCERS
OF SOUTHERN CALIFORNIA, 1917-1930

Year	Number of stockholders	Number of shippers*	Number of eggs handled, 1,000 dozens
1917.....	466	442	2,627
1918.....	542	349	2,434
1919.....	757	340	2,696
1920.....	980	538	4,104
1921.....	1,147	661	4,703
1922.....	1,317	642	4,139
1923.....	1,475	687	4,761
1924.....	1,563	600	4,170
1925.....	1,550	495	3,661
1926.....	1,507	364	2,773
1927.....	1,560	387	2,391
1928.....	1,698	452	3,699
1929.....	1,666	565	3,774
1930.....	1,600	305	2,350

* Figures represent the highest weekly number of shippers each year. Many producers with small flocks discontinued shipping during the fall months.

Source of data: Records of the Poultry Producers of Southern California.

Trend in Membership.—Table 12 and figure 5 show the number of stockholders, the number of shippers, and the number of eggs handled annually by the Association for the period 1917 to 1930. It will be seen that the number of stockholders increased steadily up to 1924. There was practically no change during the next three years. In 1928 there was an increase of nearly 140 stockholders over the previous year, followed by a slight decrease in 1929 and a much greater decrease at the beginning of 1930. The increase in stockholders in 1928 was due to the fact that a number of stockholders in the Poultrymen's Cooperative Milling Association joined the Poultry Producers of Southern California when these two associations affiliated.

STOCKHOLDERS, SHIPPERS, AND EGGS HANDLED; POULTRY
PRODUCERS OF SOUTHERN CALIFORNIA, 1917-1930

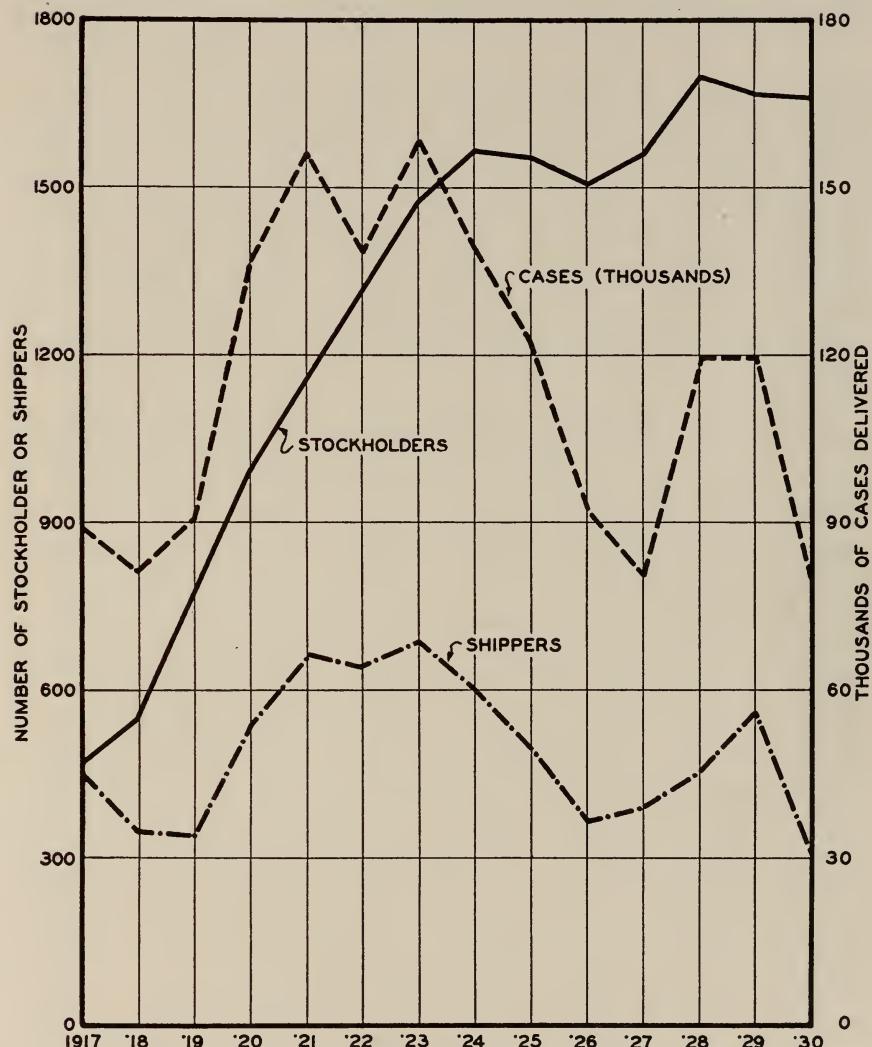


Fig. 5.—Since 1924 the number of shippers and the volume of eggs delivered have decreased although the number of stockholders has increased.

As was stated previously, a large part of the stock was held by persons who had ceased raising poultry or who had discontinued shipping eggs to the Association. In contrast to the number of stockholders, the number of active shippers varied considerably from year to year and also during the year. Many of the producers with small flocks discontinued shipping during months of low production in each year. The figures in table 12 represent the highest number of shippers in any week each year. It will be seen that the number of shippers increased gradually up to 1923 and decreased from 1924 to 1926. From 1927 to 1929 the active shippers increased but owing to the dissatisfaction of members with the prices they received from the Association during the latter year there was a big decrease in the number of shippers in 1930. The disparity between the number of shippers and the number of stockholders is clearly brought out in table 12. In 1917 nearly all stockholders were shippers; in 1922 there were two stockholders to each shipper; in 1930 the ratio was five to one.

The trend in the volume of eggs handled follows fairly closely the trend in the number of shippers. The number of eggs received from members increased annually to 1923, followed by a decrease from 1924 to 1927. In the two following years, 1928 and 1929, there was some recovery but this was more than offset by the decrease in shipments from members in 1930; the shipments in 1930 amounted to 2,350,000 dozen eggs as compared with 3,774,000 dozen in 1929.

The inability of an association to expand its operations may be due sometimes to the fact that its membership is composed largely of producers with a small volume of business which entails high per unit assembly costs. An analysis of the records of the Poultry Producers of Southern California showed that this was not true in their case. While several large poultrymen in Los Angeles County and adjoining counties never belonged to the Association, it nevertheless numbered among its members at one time or another many of the most influential poultry raisers in the territory in which it operated. Many of these still supported the Association in 1930.

An attempt was made to ascertain from those farmers who had never joined the Association or who had discontinued shipping eggs their reason for not supporting the Association. Various reasons were given. Some considered the grading system of the Association too severe and too expensive; others felt that they could get better prices for their eggs by selling to independent dealers. A few considered that the Association was not truly cooperative and was dominated by a few large stockholders. Generally the feeling was that the Associa-

tion as it was organized and operated was not in a position to render services comparable to those of the independent dealers.

The failure of the Association to secure continued and increasing membership support can be ascribed in the main to two factors: first, to its inability to make returns to its members comparable to the prices received by nonmembers, and second, to the lack of an effective membership policy.

The relation between prices paid and active membership is well illustrated by the experience of the Association during the years 1925 and 1929. In 1925 the Association incurred heavy storage losses, which resulted in low prices to members during the latter part of the year. As a result, the number of shippers decreased from 495 in 1925 to 364 in 1926, and the volume of eggs handled fell from 3,661,000 to 2,773,000 dozen. In 1929, the prices paid by the Association were low compared with the prices received by nonmembers, and the number of shippers decreased from 565 in 1929 to 305 in 1930. Some of the factors contributing to the Association's failure to pay prices comparable to those of its competitors have already been indicated; others will be dealt with in subsequent sections.

The Poultry Producers of Southern California had at no time a well-defined, effective, and consistent plan for establishing and maintaining contact with its members. Few of the boards of directors seemed to have realized the importance of such work. During the past few years a subcommittee of the board of directors was appointed to supervise membership relations. Its efforts, however, were negligible. Reliance in reaching members seems to have been placed chiefly on the "The Cooperative Poultryman and Calawhite Egg Bulletin," the joint house organ of the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association. This publication, which was distributed monthly, usually contained general news relative to the affairs of the Association and other matters of general interest. While this publication undoubtedly was of some value in disseminating information among members, it could not take the place of a more extensive and consistent membership policy. Small sums were expended each year in field work among members. This, however, was too sporadic and ineffectual to insure that identity of interest between the members and their Association which is generally conceded as being essential to continued membership loyalty and support. Many members who were interviewed in the course of this investigation complained that they were not given sufficient information relative to their Association.

TABLE 13
ASSETS, LIABILITIES AND NET WORTH OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1918-1929

	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Assets												
<i>Current</i> *												
Current.....	\$75,583	\$85,173	\$178,097	\$198,025	\$180,438	\$282,623	\$171,786	\$143,606	\$84,702	\$112,633	\$132,113	\$143,845
Fixed [†]	4,567	6,202	8,604	52,488	75,774	123,539	182,745	184,776	183,236	180,104	178,173	182,636
Accumulated loss.....	0	0	0	0	0	0	0	6,175	0	0	13,212	9,201
Totals.....	80,150	91,375	186,701	250,513	256,212	406,162	354,531	334,557	269,988	292,737	323,198	335,682
Liabilities												
<i>Current</i> †												
Current.....	\$22,294	\$29,941	\$45,890	\$57,452	\$64,372	\$180,552	\$86,084	\$133,676	\$61,375	\$25,382	\$68,457	\$101,718
Fixed (Loans).....	0	0	0	0	0	0	0	0	0	60,000	52,500	37,500
Capital.....	24,766	47,811	88,591	98,336	133,551	169,381	200,881	200,881	203,987	194,007	193,975	
Surplus and reserves [‡]	33,080	13,623	52,220	94,425	58,289	56,229	67,566	0	7,732	3,368	8,534	2,489
Totals.....	80,150	91,375	186,701	250,513	256,212	406,162	354,531	334,557	269,988	292,737	323,198	335,682
Net Worth												
Net worth (capital plus reserves and surplus).....	\$57,866	\$61,434	\$140,811	\$193,061	\$191,840	\$225,610	\$268,447	\$200,881	\$208,613	\$207,355	\$202,541	\$195,464

* Includes accounts and notes receivable, inventories and payments in advance, and dividends receivable.

† Includes land, building, equipment, shares in other associations and other fixed investments.

‡ Includes notes and accounts payable, rotation fund for retiring earlier issues of stock.

|| Includes annual and five-year pool reserves.

Sources of data: Records of Poultry Producers of Southern California.

The Poultry Producers of Southern California, like most other cooperative associations, had to face severe competition from independent dealers in soliciting farmers' patronage. Some dealers used every possible device to convince farmers of the advantage of selling their eggs to them and lost no opportunity to discredit the Association. In such circumstances it is to be expected that misleading and often malicious statements of the conduct and affairs of the Association were disseminated among members and nonmembers. Such tactics could be counteracted only by a continuous and intimate contact with members through a strong membership department, which aimed at keeping them well-informed of the operations and policies of their Association.

Financial Condition.—Owing to changes in the manner in which the financial records of the Association were kept during earlier years, it was not possible to ascertain accurate information on returns made to members, proceeds of sales, and margins taken by the Association to meet operating and other costs. Such information was in usable shape only for the years 1928 and 1929 and is analyzed in detail below (pages 45-55).

Some valuable information can be obtained, however, from an analysis of the annual balance sheets. In table 13 are summarized in condensed form assets and liabilities for the years 1918 to 1929.

The significance of some of the facts appearing in the condensed statement can be appreciated more readily if stated in terms of percentages or ratios and illustrated graphically. This has been done in table 14 and figures 6, 7, and 8.

Assets.—It will be seen that the assets of the Association increased up to the year 1923, but since then they remained more or less stationary. Up to 1923 the current and fixed assets both showed substantial yearly increases, but from 1924 onward, while the fixed assets remained at a fairly constant figure, the current assets declined rapidly until they reached a low point in 1926; this was followed by a gradual increase to \$143,845 by 1929. In figure 6 current assets are shown as a percentage of total assets. It appears that while during the first few years of the Association's activity, the bulk of the assets (over 93 per cent) were in liquid form, during the last few years less than 43 per cent were easily realizable. Or stated conversely, since about 1924 the greater part of the Association's assets were in a less liquid form (i.e., real estate, buildings, and equipment). This fact in and of itself is not necessarily a sign of weakness, especially if the Association's liquid or current liabilities had decreased in the

same proportion, and if its volume of business had expanded. It has been indicated already that on the whole the volume of eggs handled decreased.

CURRENT ASSETS AS PERCENTAGE OF TOTAL ASSETS

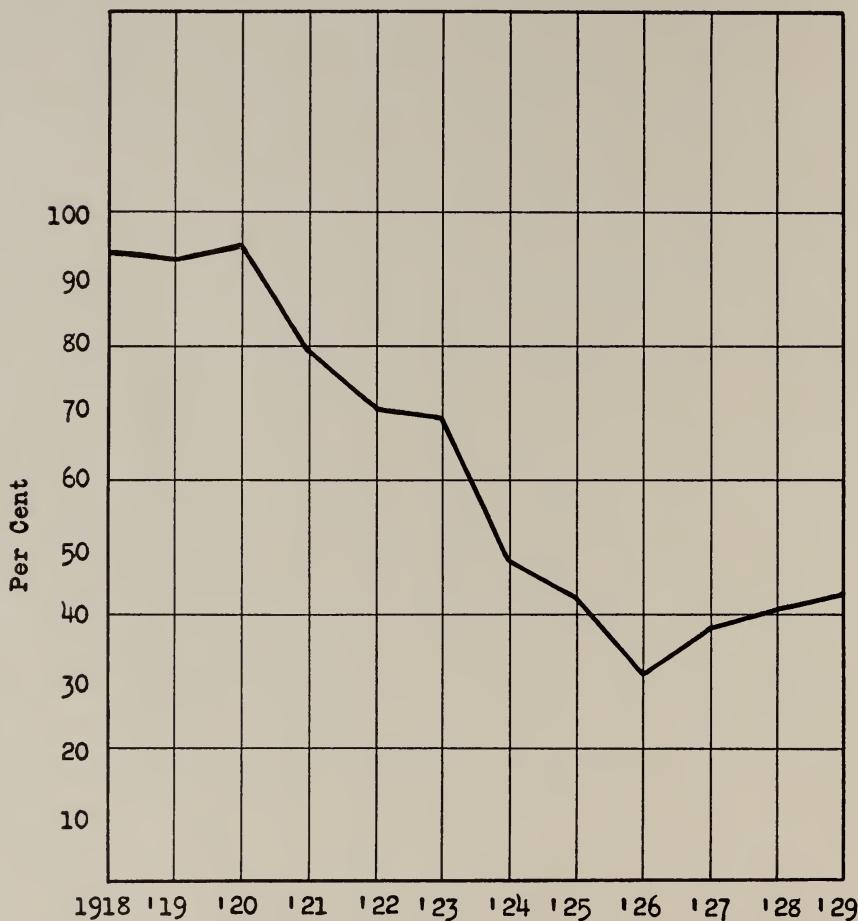


Fig. 6.—During the first few years of the Association's activity, the bulk of the assets (over 93 per cent) were in liquid form, while during the last few years less than 43 per cent were easily realizable.

Liabilities.—The liabilities of the Association have been grouped under four headings: current, fixed, capital, and reserves (table 13). Current liabilities consist of accounts and notes payable. Current liabilities increased with the expansion of the business up to 1923, decreased up to 1927 and have since increased. The most striking point is that during some years the margin between current liabilities

and current assets has been very narrow. This fact will be commented upon later.

The capital of the Association increased steadily up to 1924, but remained fairly constant from then on, with a small decline during 1928 and 1929.

Ratio of Current Assets to Current Liabilities.—Figure 7 shows that while the ratio of current assets to current liabilities has varied greatly, the general trend has been downward. Up to 1922, on the average, current assets were over 280 per cent of current liabilities; since 1923, the percentage has exceeded 200 in only one year, 1927; at the end of 1925, 1926, and 1929 the percentage was below 150. The marked increase in 1927 to 443.8 per cent was due to the fact that included in the current assets of \$112,633 at the end of 1927 was an amount of \$60,000 borrowed by the Association on its land and buildings; the current liabilities amounted to \$25,382. The \$60,000 accounted for over 240 per cent of this increase. The reduction in the ratio between current assets and current liabilities was due in large measure to the investment of a large part of the capital in land, buildings, and stock of the Poultrymen's Cooperative Milling Association and also to the reduction of the reserves through distribution of pool reserves among members. The margin between current assets and current liabilities was too low and during the last few years the Association had at times found it very difficult to finance current commitments.

Ratio of Fixed Assets to Net Worth.—Figure 8 shows that the ratio of fixed assets to net worth increased almost continuously from about 8 per cent in 1918 to 92 per cent in 1925. During the last few years it remained stationary around 90 per cent. In other words, practically all of the capital and reserves were invested in fixed assets. Up to 1920, the Association operated in rented property and its fixed investments in equipment and machinery were very low. In 1921, however, it was decided that the outlook justified the Association in purchasing a business site on Industrial Street, Los Angeles, and erecting its own building. The property was purchased in 1921 and the building completed two years later. The cost of the land was \$42,500 and the cost of the building \$73,000. In 1924 the Association purchased \$65,000 of stock in the Poultrymen's Cooperative Milling Association. The funds required for the purchase of these fixed assets were only partially supplied through an increase in the Association's stock. The balance was supplied out of bank deposits, the sale of government bonds, and out of cash made available through a reduction of credit allowed customers.

TABLE 14
FINANCIAL RATIOS OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1918-1929

	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Current assets as percentage of total assets.....	94.3	93.2	95.4	79.0	70.4	69.6	48.5	42.6	31.4	38.4	40.9	42.9
Current assets as percentage of current liabilities.....	339.0	284.5	388.1	344.7	280.3	156.5	199.5	107.4	138.0	443.8	193.0	141.4
Fixed assets as percentage of net worth	7.9	10.1	6.1	27.2	39.5	54.7	68.1	92.0	88.3	86.8	87.9	93.4
Net worth as percentage of capital.....	233.6	128.5	158.9	195.7	143.6	133.2	133.6	100.0	103.8	101.6	104.4	100.8

Source of data: Table 13.

CURRENT ASSETS AS PERCENTAGE OF CURRENT LIABILITIES

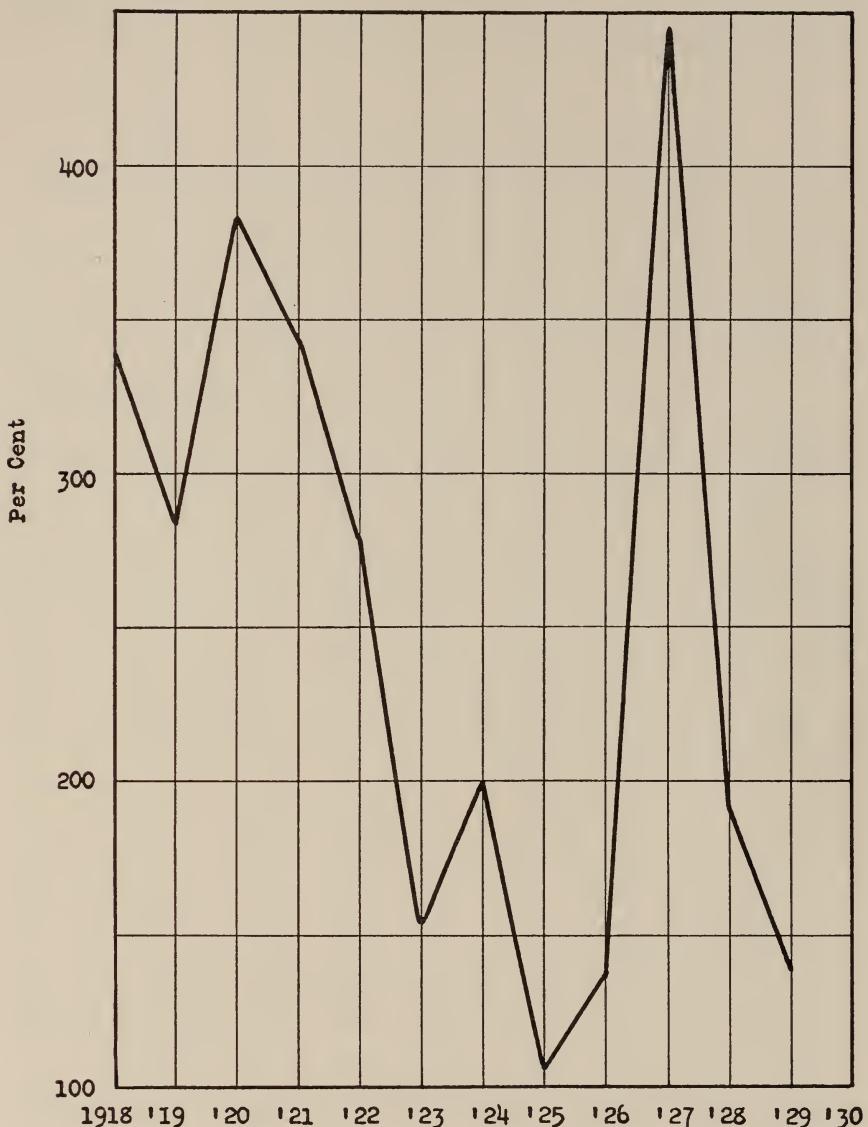


Fig. 7.—While the ratio of current assets to current liabilities has varied greatly, the trend has been downward. The great variation in 1927 was due to the raising of a loan of \$60,000 on land and buildings, which was added to current working capital. This accounted for over 240 per cent of the increase in the ratio.

Subsequent experience showed that it was a poor policy for the Association to have invested so heavily in land and buildings. This added to overhead costs of operation. Furthermore, the anticipated increase in volume of business did not materialize, but instead the volume decreased.

FIXED ASSETS AS PERCENTAGE OF NET WORTH

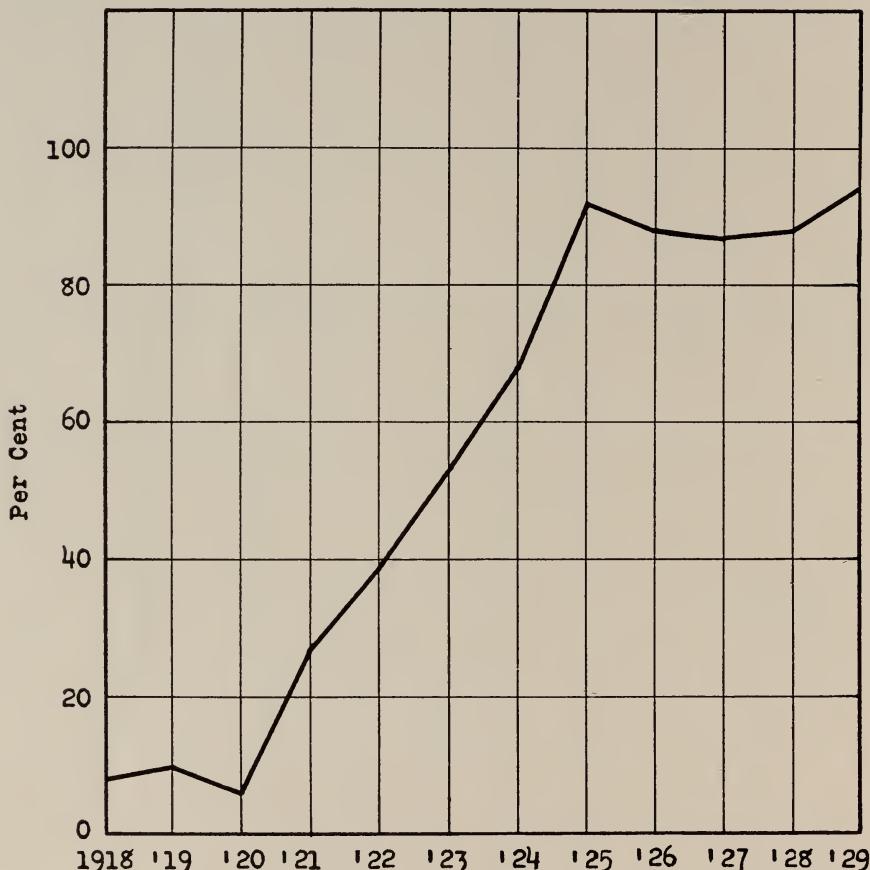


Fig. 8.—From 1920 to 1925 the ratio of fixed assets to net worth increased markedly. During the last few years it has remained practically stationary. At the present time, nearly all of the capital and reserves are invested in fixed assets.

Various efforts were made to decrease the cost of operation. In 1927 it was decided to lease the Industrial Street property and to rent a part of the building newly erected by the Poultrymen's Cooperative Milling Association on Mirasol Street, Los Angeles. The rent

obtained on the Industrial Street property amounted to about \$8,100 a year. After payment of taxes and allowance for depreciation and repairs, the Association had a net income from this property of about \$1,200 a year. The book value of the real estate and building at the end of 1929 was \$105,000. With a net rental of only \$1,200 a year, the Association was earning little more than 1.1 per cent on its investment.

The Poultry Producers of Southern California invested \$65,000 in stock of the Poultrymen's Cooperative Milling Association in 1924 partly as an investment and partly to enable its members to purchase feeds from the Poultrymen's Cooperative Milling Association. Subsequent to the purchase of this stock the Poultrymen's Cooperative Milling Association declared two stock dividends of 10 per cent each, which brought the actual value of the stock up to about \$78,000, although the stock stood in the books of the Poultry Producers of Southern California at its original purchase price. The Poultrymen's Cooperative Milling Association paid a cash dividend of 8 per cent during the years 1924 to 1930 inclusive. In 1929 the Poultry Producers of Southern California received \$6,260 as dividends from the Poultrymen's Cooperative Milling Association. This amounted to a little more than 9.6 per cent on the book value of the stock. This investment was a profitable one, even though the depletion of current working capital subsequently (1929) made it necessary for the Poultry Producers of Southern California to borrow \$60,000 at 6 per cent on its land and buildings.²² The Poultrymen's Cooperative Milling Association was in a good position financially, and this investment appears to have been quite secure.

The experience of the Poultry Producers of Southern California with regard to its investments in land and buildings seems to be typical of what has happened in the case of many other cooperative associations. There seems to be an unfortunate tendency for associations to overinvest in land, buildings, and equipment. It is found all too frequently that the amount paid for such property is in excess of its earning capacity to the association. In other cases, associations have erected expensive or elaborate buildings, whereas less expensive and more modest accommodations would have been just as useful. The same is true of investments in machinery and equipment.

This predisposition on the part of cooperative associations is due usually to one or all of several reasons, perhaps the most common of

²² By the end of 1930 the loan of \$60,000 had been reduced to \$22,500 by six monthly repayments.

which are unwarranted optimism, pride of possession, and the feeling that members are more likely to remain loyal and take an interest in their association if there is tangible property to show for their investment. Occasionally, property is purchased as a speculation in the hope that it may subsequently be sold at a profit.

NET WORTH AS PERCENTAGE OF CAPITAL

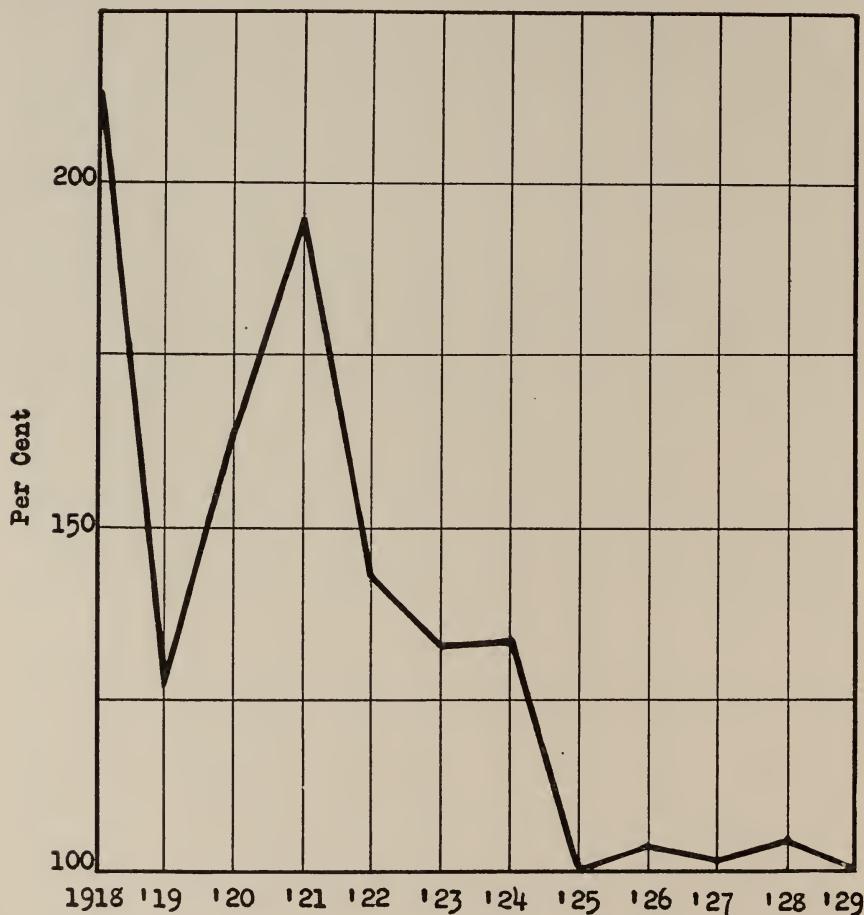


Fig. 9.—The ratio of net worth to capital decreased to a point where the two were nearly equal, showing a lack of reserves.

The investment of a large part of an association's capital and reserves in fixed assets which are in excess of requirements or of too elaborate a nature is a very dangerous policy and one that may lead to serious financial embarrassment, if not to ultimate disaster. In

such cases the per-unit operating costs are usually high, because much of the capital and reserves are not employed to best advantage. The resulting lower prices to members almost inevitably lead to decreased turnover and still higher unit costs. Furthermore, such associations find themselves continuously short of current working capital and have difficulty in meeting commitments as they fall due.

Ratio of Net Worth to Capital.—One of the most significant facts apparent from a study of the balance sheets of the Association is the fact that no provision was made for accumulating and maintaining permanent reserves. Figure 9 shows the ratio of net worth (capital and reserves) to capital. It will be seen that up to 1924 there were substantial reserves. On analysis it was found that the bulk of these reserves were pool 'overages,' which it was intended should be returned to members as deferred payments or corporation surpluses out of which annual dividends were to be paid on capital stock. Table 15 shows the surplus and reserves, pool dividends, and cash dividends on stock, paid for the period 1918 to 1929.

It will be seen that payments of \$20,517, \$47,033, and \$63,275 were made out of pool reserves during the years 1920, 1921, and 1925. Cash dividends on stock were paid yearly, with the exception of 1925, 1929, and 1930. These dividends ranged from 10 per cent in 1918 to 4 per cent in 1927 and 1928.

Many cooperative associations fail to realize the importance of building up and maintaining permanent reserves, which serve not only to make the capital invested more secure, but also to fortify an association against unforeseen losses or to provide funds for expansion. Furthermore, banks in considering applications for short-term loan accommodation place considerable emphasis upon the adequacy of reserve funds.

Boards of directors are anxious usually to return to members all profits made in order to make a good showing. While it is desirable that an association should pay to members as high prices as possible, it is just as important that provision be made out of yearly earnings for building up reserves, which should not be depleted except under very unusual circumstances.

If the Poultry Producers of Southern California had accumulated and maintained adequate reserves, it would not have been forced in 1927 to borrow money on its land and property, and it would not have experienced such difficulty in securing short-term loan accommodation.

TABLE 15
SURPLUS AND RESERVES, AND DIVIDENDS PAID, 1918-1929

	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Surplus and reserves.....	\$33,000	\$13,623	\$ 52,220	\$94,425	\$58,289	\$56,229	\$67,566	0	\$7,732*	\$3,368*	\$8,534*	\$2,489
Pool dividends.....	0	0	20,517	47,033	0	0	\$63,275	0	0	0	0	0
Cash dividends on stock.....	2,982	3,253	5,659	6,406	10,220	12,997	15,506	0	15,506	7,753	7,754	0
Cash dividend per cent.....	10	6	6	6	8	8	8	0	8	4	4	0

* After deduction of dividends on stock.

Source of data: Records of Poultry Producers of Southern California.

Business Structure of Poultry Producers of Southern California, Inc.—Up to 1924 the conduct of the affairs of the Association, including the marketing of eggs, was intrusted by successive boards of directors to a manager, working in consultation with an executive committee of three directors, which met weekly. In an attempt to reduce costs of operation an arrangement was made in 1925 with a commission firm in Los Angeles to undertake the sale of eggs, both those of current receipt and those withdrawn from storage, on behalf of the Association for that year. The proceeds of sales (less commission) were remitted to the Association for distribution among members. This made it possible to dispense with the services of the manager, the routine affairs of the Association being attended to by the secretary. As a result of severe storage losses and other unsatisfactory matters, it was decided in 1926 to revert to the former arrangement whereby the Association marketed its own eggs under the supervision of a full-time manager.

Owing, however, to overinvestment in land and buildings and a declining volume of business, operating costs continued to mount. All possible ways of effecting economies were explored. With this purpose in view an agreement was made in 1927 with the Poultrymen's Cooperative Milling Association to operate under joint management. The arrangement then effected was substantially the same as existed in 1930 (see fig. 10).

POULTRYMEN'S COOPERATIVE MILLING ASSOCIATION

The Poultrymen's Cooperative Milling Association was a stock corporation formed in 1912²³ by a group of poultrymen to handle poultry feeds. It was reorganized in 1917 and put on a sounder financial basis. The Poultrymen's Cooperative Milling Association and the Poultry Producers of Southern California operated as separate corporate entities under different managements until 1928. There were, however, frequent consultations between the boards of directors of the two organizations on matters of mutual interest. Since 1924 the Poultrymen's Cooperative Milling Association made steady progress and at the end of 1930 was in a sound financial position (table 16). Its share capital had increased and adequate reserves had been accumulated. Turnover increased from 20,403 tons of feed sold for \$1,014,911 in 1924, to 45,553 tons for \$2,301,923 in 1929. Cash divi-

²³ Under the name of Poultrymen's Cooperative Association.

dends of 8 per cent on capital stock were paid for eight consecutive years, and in addition two stock dividends were declared in 1924 and in 1927. The amounts so added to capital stock were \$9,250 and \$20,000 respectively. Land, buildings, plant, and equipment were valued at \$260,079 at the end of 1929. This represented the original purchase price of these assets less the maximum depreciation permissible under the federal income-tax regulations.

TABLE 16
FINANCIAL STATUS, TURNOVER, AND DIVIDENDS DECLARED BY POULTRYMEN'S
COOPERATIVE MILLING ASSOCIATION, 1924-1929

	1924	1925	1926	1927	1928	1929
Assets						
Current.....	\$75,146	\$134,698	\$314,199	\$301,891	\$304,887	\$340,545
Fixed.....	150,245	162,169	228,705	327,172	321,912	308,075
Total.....	\$225,391	\$296,867	\$542,904	\$629,063	\$626,799	\$648,620
Liabilities						
Current.....	\$ 67,398	\$104,281	\$210,323	\$260,392	\$213,954	\$193,848
Fixed.....	40,990	37,296	75,000	70,500	66,000	65,000
Capital stock.....	102,820	114,920	192,653	243,947	300,844	327,915
Surplus.....	14,183	40,390	64,928	54,224	46,001	61,857
Total.....	\$225,391	\$296,867	\$545,904	\$629,063	\$626,799	\$648,620
Dividend						
Cash dividends paid.....	\$ 7,914	\$ 8,890	\$ 13,244	\$ 18,983	\$ 23,034	\$ 25,681
Stock dividends declared.....	9,250	0	0	\$ 20,000	0	0
Turnover						
Volume, tons.....	20,403	30,025	39,125	45,106	46,921	45,553
Value.....	\$1,014,911	\$1,581,017	\$1,893,891	\$1,950,760	\$2,380,661	\$2,301,933

Source of data: Records of Poultry Producers of Southern California.

While the payment of dividends was one of the chief objectives of the Poultrymen's Cooperative Milling Association, it had some cooperative features. All profits over and above the amounts required to pay the 8 per cent cash dividends and to provide for reserve funds were returned to stockholders in proportion to the volume of feed

bought.²⁴ Most of the stockholders were poultrymen, many of whom were members of the Poultry Producers of Southern California.²⁴ In addition the Poultry Producers of Southern California held practically one-fifth of the stock of the milling concern. Some of the directors of the Poultry Producers of Southern California were at different times on the board of the Poultrymen's Cooperative Milling Association. Notwithstanding these facts and the fact that the latter Association had made good progress, large numbers of poultrymen refused to support it on the ground that it was not strictly cooperative.

The central office and plant of the Poultrymen's Cooperative Milling Association was for many years located on leased property on Industrial Street, Los Angeles. As this proved inadequate to care for the expanding volume of business and was also inconveniently located, this organization purchased a tract of land from the Union Pacific Railroad on Mirasol Street, Los Angeles, in 1926. A building was erected thereon and was ready for occupation toward the end of 1927. In addition the Poultrymen's Cooperative Milling Association owned and operated plants in the surrounding territory.

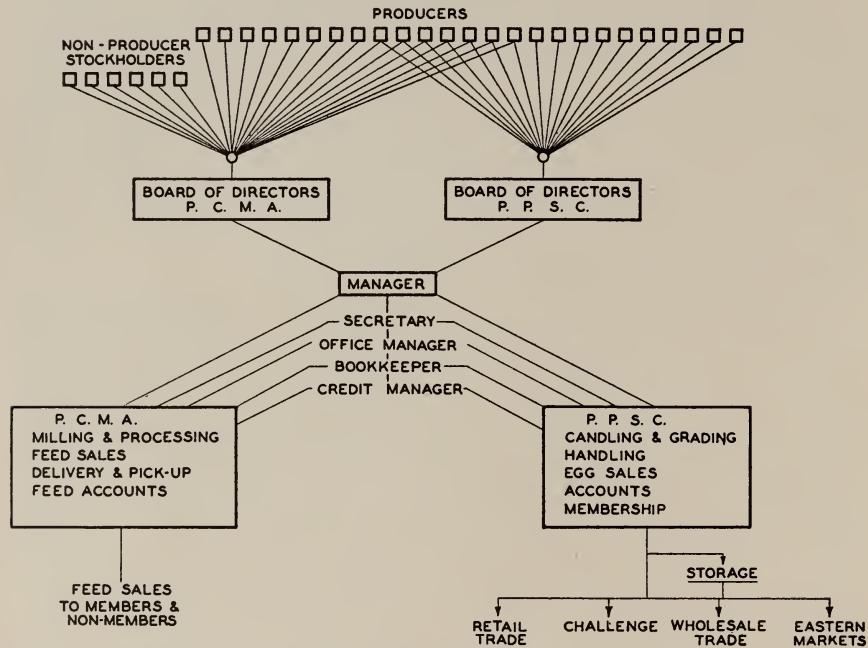
Arrangement Between the Two Associations.—When the Poultrymen's Cooperative Milling Association building on Mirasol Street was occupied an arrangement was made whereby part of the space was leased to the Poultry Producers of Southern California at a rental of approximately \$2,000 a year. The Poultry Producers of Southern California in turn leased its property on Industrial Street for approximately \$8,000 a year. In addition it was agreed that the two associations would operate under one management and with a unified office force. The manager of the Poultrymen's Cooperative Milling Association, Mr. H. W. Amelung, thus became manager of the Poultry Producers of Southern California as well. Both associations, however, retained control through separate boards of directors over all matters pertaining to the disposal of all products handled on behalf of members. The joint manager was thus responsible to the board of directors of the Poultry Producers of Southern California for all matters and policies pertaining to the handling and sale of eggs and to the board

²⁴ The following represented stock outstanding on December 31, 1929:

910 poultrymen held 15,145 shares, value.....	\$151,450
Poultry Producers of Southern California held 7,411 shares, value	74,110
Trustee held 425 shares, value.....	4,250
52 employees held 2,377 shares, value.....	23,770
70 investors, many of whom are ex-poultrymen, held 6,935 shares, value	69,350
	<hr/>
	\$322,930

of the Poultrymen's Cooperative Milling Association for policies relating to the milling and sale of feeds. A joint interrelations committee consisting of members of both boards of directors was appointed to consider points of dispute and matters of common interest. The relation between the two associations is shown graphically in figure 10.

BUSINESS STRUCTURE OF POULTRY PRODUCERS OF SOUTHERN CALIFORNIA AND POULTRYMEN'S COOPERATIVE MILLING ASSOCIATION



P. P. S. C. = POULTRY PRODUCERS OF SOUTHERN CALIFORNIA INC.
P. C. M. A. = POULTRYMEN'S COOPERATIVE MILLING ASSOCIATION

Fig. 10.—The Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association operated under joint management from 1928 to 1930.

In addition to a rental of about \$2,000 a year paid by the Poultry Producers of Southern California to the Poultrymen's Cooperative Milling Association, the former association bore part of the salaries of the manager, office manager, secretary, bookkeeper, and such other office help as was used by both associations and the full salaries of all clerks employed only on the records and accounts of the Poultry Producers of Southern California. The latter association also paid the salaries and expenses of the sales manager of the egg department

and his assistants and for all labor and materials employed in grading, handling, and processing eggs. The Poultrymen's Cooperative Milling Association, which operated several trucks, collected eggs of members of the Poultry Producers of Southern California and delivered them to customers on a cost basis.

While on the whole the arrangement above outlined worked satisfactorily, there was some difference of opinion on the matter of expenses. Some members of the board of the Poultry Producers of Southern California claimed that their association had to bear a larger share of the overhead expense than was justified. On the other hand, the amount contributed to the salary of the manager, office manager, secretary, and other joint staff was not commensurate with the amount of time devoted by these officials to the affairs of the Poultry Producers of Southern California. Moreover, the Poultrymen's Cooperative Milling Association maintained that owing to a decrease in the volume of eggs handled the scale of charges made for picking up and delivery of eggs resulted in a loss to the milling association each year on the operation of its trucks.

Whatever the merits of the various arguments may have been, it would appear that both associations gained by operating in one building and with a unified office force. The milling association was able to utilize its building to better advantage and the expenses of the manager and office force probably would have been much the same if it had operated entirely independently of the Poultry Producers of Southern California. Similarly, if the Poultry Producers of Southern California had continued to operate in its Industrial Street property and maintained its own collection and delivery service, its expenses undoubtedly would have been much higher. The various arguments seem to indicate that it would have been advantageous to poultrymen who were members of one or the other or both associations if there had been only one association handling both feeds and eggs.

The arrangement between the two associations went into effect at the beginning of the year 1928. The Poultry Producers of Southern California experienced an increase in the number of shippers and in the volume of eggs handled; from 387 and 2,391,000 dozen respectively in 1927 to 452 and 3,565,000 dozen respectively in 1928. The following year there was a further increase in shippers to 565 and in eggs handled to 3,774,000 dozen. The increase was due to the fact that a number of stockholders of the Poultrymen's Cooperative Milling Association and other poultrymen joined the Poultry Producers of Southern California under the belief that it would be able to operate more economically under the new arrangement. Notwith-

standing this fact and that the Poultry Producers of Southern California was able to accomplish some economies under this arrangement, its costs of operation were still too high. The margin it had to take to provide for these costs resulted in lower prices to members than were obtained by producers who sold their eggs to independent dealers.

OPERATING EXPENSES OF POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, INC.

The success or failure of a cooperative association is based, to a large extent, upon the returns it makes to its members for their products. The prices which an association can pay to members are dependent, first, upon the prices at which the association can sell these products and second, upon the margins retained to meet its costs of operation. The former is in turn related to prevailing marketing conditions and to the efficiency of the association's price and sales policy; the latter is related to the efficiency of its internal administration, including the physical handling of the product and the handling of records. It is quite conceivable that an association may obtain consistently higher prices than its competitors, but that its costs of operation and selling are so high that its returns to members may be lower than those received by nonmembers. On the other hand, while an association may succeed in securing only average or lower than average prices, its costs of operation may be so low that it can make higher returns to members than those obtained by nonmembers. The margins on which an association operates is thus of the utmost importance.

In table 17 is given a summarized statement of the operating costs of the Poultry Producers of Southern California for the years 1928 and 1929 during which it operated under the arrangement above described (pages 57-59).²⁵ The income and expenses of the Association are grouped under two main headings: (1) trading (or pool) income and expenditure, and (2) corporation income and expenses.

The trading income was derived from the sale of eggs and from small miscellaneous items; the trading expenditure consisted of all direct costs incurred in the handling and selling of eggs, including the office expense of keeping members' and customers' accounts and of a contribution of 1/10 cent a dozen towards the corporation expenses.

²⁵ Comparable costs for previous years could not be obtained without considerable labor, because of the manner in which financial records were handled.

TABLE 17
TRADING AND CORPORATION OPERATIONS POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, INC., 1928 AND 1929

	Income and expenditure, dollars	Cost per dozen, cents	Cost per case, cents	Per cent of total cost
	1928	1929	1928	1929
Trading				
Proceeds of sales*	\$1,273,588.13	\$1,370,594.65	34.42	36.32
Payments to shippers*	1,065,206.27	1,185,808.40	28.79	31.42
Balance.....	208,361.86	184,786.25	5.63	4.90
Miscellaneous pool income.....	2,010.94	1,004.36	0.05	0.02
Gross pool profit.....	210,372.80	185,790.61	5.68	4.92
Pool expenses				
Grading (candling) labor.....	34,241.05	38,069.09	0.98	1.01
Handling, washing, and sanding.....	15,628.02	15,863.69	4.42	4.42
Cases, case material, and cartons.....	31,182.73	34,196.14	0.84	0.90
Storage expense.....	49,005.70	30,343.72	1.32	0.80
Selling expenses.....	25,435.19	21,287.13	0.69	0.56
Freight (eastern shipments).....	6,621.82	5,279.32	0.18	0.14
Delivery.....	15,605.97	10,128.77	0.42	0.27
General administration.....	21,033.83	26,926.85	0.57	0.72
Corporation.....	9,903.01	6,697.36	0.27	0.18
Total pool expenses.....	208,648.01	188,792.07	5.64	5.00
Net pool profit or loss (Gross pool profit less total pool expenses).....	1,724.79†	3,001.46‡	0.04	0.08
Corporation income				
Pool deductions and miscellaneous income.....	9,903.01	8,125.38	5.68	4.92
Rent Industrial Street property.....	8,100.00	8,100.00		
Dividends Poultrymen's Cooperative Milling Assn.....	5,928.60	6,260.00		
Total income.....	23,931.81	22,485.38		
Corporation expenses				
Real estate (taxes, insurance, depreciation, etc.)	7,773.69	6,965.29		
Office and executive expense.....	9,150.00	9,266.84		
Directors' fees and expense.....	1,741.55	2,066.94		
Stockholders' meetings.....	163.31	1,283.73		
Field work.....	116.60	1,020.45		
Miscellaneous.....		172.20		
Total expenses.....	18,975.15	20,775.45		
Corporation profit (Income less expenses).....	4,956.66	1,709.93		

* Quantity of eggs sold in 1928 was 3,697,350; in 1929, 3,767,690. Quantity of eggs purchased in 1928 was 3,699,400; in 1929, 3,773,640.

Source of data: Details from annual operating statements. A few minor adjustments have been made for the purpose of comparison.

† Profit.

‡ Loss.

The corporation income consisted of the deduction of 1/10 cent a dozen mentioned in the preceding paragraph, of rent from the Industrial Street property, of dividends from the Poultrymen's Cooperative Milling Association, and of small miscellaneous revenues. The expenditure under this heading consisted of amounts disbursed for taxes, insurance, and allowance for depreciation of fixed property, corporation office expense, directors' and stockholders' meetings, field work, and other miscellaneous items.

Pool Operations.—Members were not required to sort, candle, or wash their eggs on the ranch. They packed their eggs in cases supplied to them by the Association at cost. The territory in which the Association operated was divided into several areas. Each area was covered two or three times a week. Trucks called at each member's ranch to collect eggs and to deliver empty cases. The collection of eggs and delivery of cases was done by the Poultrymen's Cooperative Milling Association either in its own trucks used only for this purpose or by contract with a public carrier. As a rule trucks used for delivering feed were too heavy to be used for collecting eggs at the ranch. In some cases eggs were assembled at country plants of the Poultrymen's Cooperative Milling Association and hauled into Los Angeles by feed trucks. The charges for collection varied from 15 cents to 35 cents a case, according to the distance of each area from Los Angeles.

All eggs received were hauled to the Poultrymen's Cooperative Milling Association plant in Los Angeles, where they were immediately sorted, candled, and if necessary, sanded.²⁶ The Poultry Producers of Southern California had ten or more grades, depending upon the time of the year and the volume handled each year. With a larger volume a greater refinement of grades was necessary to enable the Association to select eggs suitable for shipment to eastern markets. After grading and candling, eggs were packed in cartons or cases and were then ready for immediate sale or storage.

Eggs were handled in weekly pools which included all eggs received from members from Monday to Saturday of each week. The weekly pools were credited with the estimated selling value of the eggs less the estimated cost of operation. Members were credited in turn with their proportionate share of the weekly pool on the basis of grades. From the amount due each member was deducted (1) 1 cent

²⁶ Grades commonly used by the Poultry Producers of Southern California were: Extras, Dirty Extras, Firsts, Standards, Mediums, Medium Firsts, Dirty Mediums, Standard Mediums, Smalls, U. S. Small, Chex, Commercials or Bakers, Ducks, and Bloods.

a dozen for capital-stock rotation, (2) the collection charge, and (3) in some years small deductions for special advertising or other purposes. Remittances were sent to members each Thursday for the previous week's pool.

During the period of slack production eggs of current supply were sold within a day or two after receipt at the plant. Occasionally, it was necessary to place small quantities of eggs in the cooler for a few days. During the period of heavy receipts large quantities of eggs, in addition to those sold immediately, were placed in cold storage or shipped East. A certain proportion of such eggs were processed (covered with oil) before being placed in storage. The storage eggs were gradually withdrawn from the storage warehouses during the period of slack production. On withdrawal from storage, all eggs were recandled to detect any deterioration or inferior eggs.

Delivery of eggs to customers was made in trucks operated by the Poultrymen's Cooperative Milling Association. The Poultry Producers of Southern California paid the Poultrymen's Cooperative Milling Association a fixed charge for this service.

Pool Income.—The Poultry Producers of Southern California sold 3,697,350 dozen eggs in 1928 and 3,767,690 in 1929.²⁷ The gross proceeds of sales during the two years were \$1,273,568.13 and \$1,370,594.65 respectively, which amounted (on a basis of eggs sold) to 34.42 cents a dozen, or \$10.33 a case in 1928, and 36.32 cents a dozen or \$10.90 a case in 1929. Members were credited with \$1,065,206.27 in 1928 and \$1,185,808.40 in 1929, or an average of 28.79 cents a dozen or \$8.64 a case in the former year and 31.42 cents a dozen or \$9.43 a case in the latter. These amounts represented the f.o.b. plant price to members. In order to ascertain the actual cash price received by members, the various deductions for capital stock, collection, and other charges must be made first. This has been done in table 18. It will be seen that members received an average cash price of 27.13 cents a dozen, or \$8.14 a case in 1928 and 29.59 cents a dozen, or \$8.88 a case in 1929.

The Association retained \$206,361.86 in the former year and \$184,786.25 in the latter for operating expenses. These amounts, together with small miscellaneous pool revenue, resulted in gross pool profits of \$210,372.80 and \$185,790.61 respectively.

²⁷ The small difference between these figures and the quantities received from members (table 12), is due to breakage and loss in handling, processing, and storing.

TABLE 18

AMOUNT CREDITED TO MEMBERS, DEDUCTIONS, AND CASH PAYMENTS TO MEMBERS
POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1928 AND 1929

	1928			1929		
	Total dollars	Per dozen, cents	Per case, dollars	Total, dollars	Per dozen, cents	Per case, dollars
Amount credited to members.....	\$1,065,206.29	28.79	\$8.64	\$1,185,808.40	31.42	\$9.43
Deductions						
Capital stock.....	\$ 36,596.15	.....	.....	\$ 38,012.25	.....	.....
Pick-up charges.....	24,608.20	.....	.....	25,402.17	.....	.....
Miscellaneous.....	460.18	.....	.....	5,762.34	.....	.....
Total.....	\$ 61,564.53	.....	.....	\$ 69,176.76	.....	.....
Balance, being cash payment to members.....	\$1,003,641.74	27.13	\$8.14	\$1,116,631.64	29.59	\$8.88

Source of data: Records of the Poultry Producers of Southern California.

Collection Charges.—Figure 11 shows the distribution of shippers and collection areas at the end of 1929. It will be seen that the membership was widely scattered. In some areas trucks had to travel long distances between one ranch and the next. In many instances members had only one or two cases of eggs available at a time. Table 19 shows the number of cases of eggs picked up at a time during the months of May and October, 1929.²⁸

TABLE 19

FREQUENCY OF NUMBER AND PER CENT OF CASES OF EGGS COLLECTED PER STOP

Cases	May, 1929		October 1929	
	Number of stops	Per cent	Number of stops	Per cent
1.....	596	14.9	1103	48.0
2.....	946	23.6	591	25.7
3.....	741	18.5	237	10.3
4.....	515	12.9	114	5.0
5.....	346	8.6	79	3.4
6 and over.....	861	21.5	174	7.6
Total.....	4,005	100.0	2,298	100.0

Source of data: Records of Poultry Producers of Southern California.

²⁸ The months of May and October are representative of conditions during the seasons of flush and slack egg production respectively.

DISTRIBUTION OF SHIPPERS AND COLLECTION AREAS OF POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, INC.

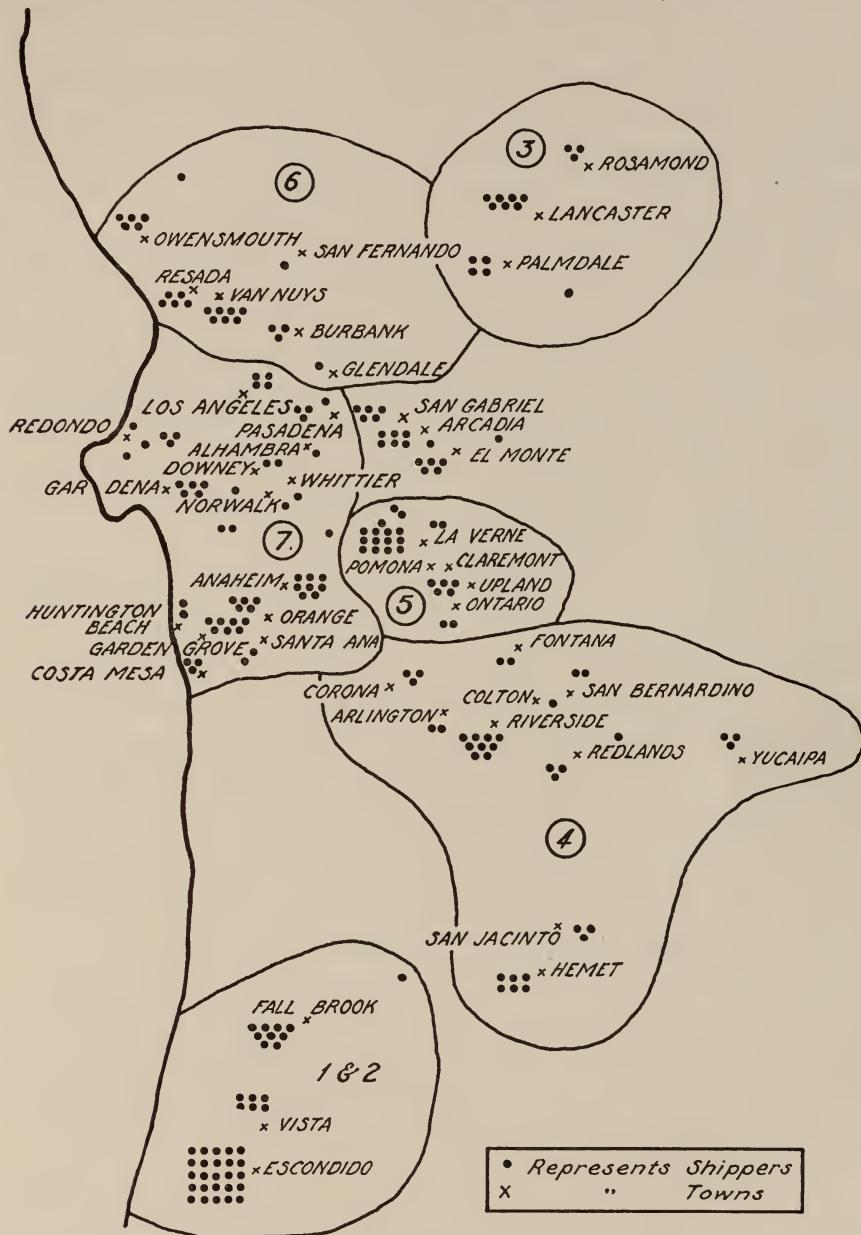


Fig. 11.—The shippers of the Poultry Producers of Southern California were widely scattered. Collection areas as at the end of 1929 are indicated. The charges for collection service were: areas 1 and 2—35 cents, commercial trucks; area 3—17 cents, commercial trucks; areas 4, 5, 6, and 7—15 cents, Poultrymen's Cooperative Milling Association trucks.

It will be seen that during October over 73 per cent of the poultrymen had 2 or less cases of eggs available at a time. In May, during the heavy production, less than 40 per cent of the egg producers had 2 or less cases of eggs available at a time.

Undoubtedly collection charges could have been reduced considerably if members had sent their eggs to collection points. However, inasmuch as independent dealers collect eggs at the ranch, members expected a similar service from the Association and it is doubtful whether they would have foregone this service.

Pool Expenses.—The total pool expenses amounted to \$208,548.01 in 1928 and \$188,792.07 in 1929, or an average of 5.64 cents a dozen, or \$1.69 a case in the former year, and 5.00 cents a dozen, or \$1.50 a case in the latter. In 1928 a net pool profit of \$1,724.96 was made and in 1929 a net loss of \$3,001.46. It will be seen that while the Association handled a larger volume of business in 1929 than in 1928, both its total and its unit pool costs were lower. The decrease in unit costs did not apply to all individual items of pool expenses; some items were actually greater in 1929 than in 1928.²⁹

Grading Labor.—Approximately 16.5 per cent of the total pool expense was incurred in grading in 1928 and 20.2 per cent in 1929; on a per case basis this worked out at 28 cents and 30 cents respectively. Up to the fall of 1929 the Poultry Producers of Southern California employed men graders. For various reasons they proved unsatisfactory. It was decided to replace them with women graders. During the transition period, severe losses were incurred while women were being trained. Toward the end of the year the new grading system was functioning satisfactorily and grading costs were reduced from 30 cents a case to a little over 20 cents a case. It is doubtful whether any further savings could have been effected under this heading, unless the organization had graded less strictly.

As a rule the cost of grading varies directly with the volume handled. As receipts increase extra graders must be employed and vice versa. Some small variation in the annual costs may be due to differences in volume of storage eggs handled. The cost of this operation for eggs taken from storage is somewhat less than for fresh eggs, as no sizing needs to be done.

Handling, Washing, and Sanding.—About 7.4 per cent of the total pool expenses were incurred in handling, washing, and sanding, in 1928 and 8.4 per cent in 1929. The unit cost, however, was

²⁹ Further discussion of pool expenses will be confined to costs per case. These costs, however, can be converted to a per-dozen basis by dividing by 30.

about the same, namely 13 cents a case. The bulk of the expense incurred was for labor, as is shown in table 20.

The sanding machine was installed in 1929. The expense of sanding in this year, including the royalty on the sanding machine of \$1,574.99 was \$5,390.56. The Association earned \$3,064.00 by sanding eggs on behalf of commercial firms, which reduced the cost to be borne by the pool to \$2,326.56. While the installation of the sanding machine did not in 1929 materially reduce the unit cost of handling, washing, and sanding, it enabled the Association to put out uniformly clean eggs.

TABLE 20
HANDLING, WASHING, AND SANDING EXPENSE,
POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1928 AND 1929

	1928			1929		
	Handling and washing	Sanding	Total	Handling and washing	Sanding	Total
Labor.....	\$12,870.57	0	\$12,870.57	\$11,092.35	\$ 2,852.95	\$13,945.30
Supplies, power, and equipment.....	1,558.04	0	1,558.04	687.45	400.09	1,087.54
Royalties on sanding machine.....	0	0	0	0	1,574.99	1,574.99
Depreciation.....	1,200.00	0	1,200.00	1,400.00	262.50	1,662.50
Miscellaneous.....	0	0	0	357.33	300.03	657.36
Total.....	\$15,628.62	0	\$15,628.62	\$13,537.13	\$ 5,390.56	\$18,927.69
Less income from commercial sanding.....	0	0	0	0	3,064.00	3,064.00
Net total.....	\$15,628.62	0	\$15,628.62	\$13,537.13	\$ 2,326.56	\$15,863.69

Source of data: Records of the Poultry Producers of Southern California.

The labor costs for handling, washing, and sanding, like those of candling and grading, tend to vary with the volume of eggs handled and with the quantity of eggs placed in storage. In some years the general run of eggs may contain more surface dirt than in other years, or a larger quantity of storage eggs may be handled. This would be reflected in somewhat higher sanding costs, but the variation probably would not be important. The cost of handling, washing, and sanding was somewhat higher in 1930 than in 1928 or 1929, owing mainly to the fact that the Association purchased large quantities of processed storage eggs, which required sanding before being sold to the wholesale and retail trade. It is doubtful whether marked economies could be realized in labor costs, but with a larger volume of business it

might be possible to reduce the unit costs a certain extent by utilizing the sanding and other equipment more fully.

Cases, Case Material, and Cartons.—The cost of materials and labor for packaging eggs represented 14.9 per cent of the total pool expenditure in 1928, and 18.0 per cent in 1929. The unit costs were 25 cents and 27 cents a case respectively. The detailed costs are shown in table 21.

TABLE 21

MATERIAL AND LABOR COSTS CONNECTED WITH PACKAGING EGGS, POULTRY
PRODUCERS OF SOUTHERN CALIFORNIA, 1928 AND 1929

Item	1928			1929		
	Cases	Cartons	Total	Cases	Cartons	Total
Labor.....	\$ 6,000.00			\$ 5,360.94	\$ 3,647.43	\$ 9,008.37
Material.....	16,311.90	\$ 8,850.83		14,721.90	10,465.87	25,187.77
Total.....	\$22,311.90	\$ 8,850.83	\$31,162.73	\$20,082.84	\$14,113.30	\$34,196.14

Source of data: Records of the Poultry Producers of Southern California.

The total cost of labor varies with the volume of eggs handled and with the type of labor employed. In 1929 when the candling and grading personnel was changed, several women were substituted for men in the packing force. Owing to the dislocation which took place at the time, the benefits of this change were not apparent in the 1929 operations. In 1930, however, the labor cost of packing was reduced substantially below that of 1929.

A much larger proportion of the Association's sales in 1929 was in cartons. This accounted for much of the increase over 1928. As cartoned eggs usually sell for 1 cent more than eggs in cases, the increased cost of materials would be offset by a higher average price for eggs sold.

Economies under this head could be realized mainly through the efficiency of the labor employed and through advantageous purchases of materials. An increase in the volume of business handled would not reduce unit costs materially.

Storage Costs.—One of the most important items of pool expense was storage, which represented 23.4 per cent of the total expense in 1928 and 16.0 per cent in 1929. The unit cost was 40 cents and 24 cents a case respectively. The details of storage costs are shown in table 22.

Storage expenses consisted of handling and candling, labor, transportation, cases and materials used in packing and processing, royalties on the processing equipment, warehouse charges, insurance, interest on moneys borrowed from the banks on warehouse receipts and other miscellaneous cost items. It will be seen that the total storage expenses were reduced from \$49,005.79 in 1928 to \$30,343.72 in 1929.

Unfortunately, it was not possible to make a strict comparison of the result of storage operations for the two years because the quantities of eggs placed in storage in 1928 and the proceeds of sales of such eggs during the whole of that year were not segregated from other sales in the records of the Association.

TABLE 22
STORAGE COSTS OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA
1928 AND 1929

Item	1928	1929
Labor and transportation.....	\$14,775.20	\$ 4,740.05
Cases and materials.....	7,041.23	6,739.81
Processing royalties.....	3,875.55	2,635.50
Warehouse charges.....	14,851.60	8,554.18
Insurance.....	327.81	195.07
Interest.....	7,329.95	6,462.57
Miscellaneous.....	804.45	1,016.54
Total.....	\$49,005.79	\$30,343.72

Source of data: Records of Poultry Producers of Southern California.

Reductions were accomplished in practically every item, the biggest reductions being for labor and transportation costs and warehouse charges. The decrease in these items was due mainly to the fact that smaller quantities of eggs were placed in storage in the latter year. The use in 1929 of women instead of men for grading also helped to reduce labor costs per case. The fact that interest charges in 1929 were only \$877.38 less than in 1928 was due to the higher prices of eggs in 1929.

Storage expenses vary in proportion to the number of cases of eggs placed in storage, the prevailing prices for eggs during the flush production period (reflecting in higher interest charges), and the length of time eggs remained in storage. The justification of storage costs should depend upon whether returns from the sale of eggs placed in storage less storage expenses were higher than they would have been if eggs had been sold soon after they were received from members.

Selling Expenses.—Selling expenses represented 12.3 per cent of the total pool expenditures in 1928 and 11.2 per cent in 1929. The total selling expenses were reduced from \$25,435.19 in 1928 to \$21,287.13 and the per-case expenses from 21 cents to 17 cents. Various items in selling expenses are shown in table 23.

TABLE 23
SELLING EXPENSES OF THE POULTRY PRODUCERS OF SOUTHERN CALIFORNIA
1928 AND 1929

Item	1928	1929
Salaries, commissions, and traveling.....	\$18,723.19	\$18,984.10
Advertising.....	2,437.87	1,681.08
Bad debts.....	1,600.00	2.70
Stall; central market.....	1,217.00	63.02
Miscellaneous.....	1,457.13	556.23
Total.....	\$25,435.19	\$21,287.13

Source of data: Records of Poultry Producers of Southern California.

The salaries and expenses of the salesmen were about the same for the two years. All of the other items were lower in 1929 than in 1928. The Association discontinued operating a stall in the Los Angeles central market early in 1929.

Notwithstanding the economies effected in 1929, the unit selling costs were very high. These could have been reduced substantially if (1) the Association had handled a larger volume of eggs, (2) if it had handled more products, e.g., frozen and canned poultry, and (3) if it had made certain changes in its selling methods.

Most of the dealers with whom the Association competed in the disposal of its eggs handled additional products. This enabled them to spread their costs over several commodities. It also strengthened their bargaining power.

A large part of the Association's sales were in lots of two cases and under. It requires as much of a salesman's time to sell one as to sell several cases of eggs to a retail dealer. It is possible that a much larger volume of business could be handled with a smaller sales force if efforts were concentrated on the larger retailers and wholesale dealers.

Freight (Eastern Shipments).—The expenditures under this heading represented only a small proportion of the total pool costs (3.2 per cent in 1928 and 2.8 per cent in 1929). These costs vary in proportion to the number of cases shipped to eastern markets, and their

justification depends upon whether the net amount received on eggs shipped East is greater than if these eggs had been sold (wholesale or retail) in Los Angeles. It was not possible to obtain information as to the results of sales of eggs in eastern markets for the two years in question, because the proceeds of sales were not recorded separately.

Delivery.—The cost of delivery represented 7.4 per cent of the total pool expenditures in 1928 and 5.4 per cent in 1929. The unit cost was reduced from 12 cents a case in the former year to 8 cents in the latter. The reduction was due to a decrease in the charges made by the Poultrymen's Cooperative Milling Association for this service. The latter Association maintained that because of this reduction it operated the egg-delivery service at a loss.

The city of Los Angeles and other adjacent cities cover a very wide area. This causes the cost of delivery to be greater than in cities where the population is more concentrated (for example, San Francisco). In spite of this fact, however, delivery expenses could have been reduced considerably if a larger volume of eggs and other poultry products had been handled and if sales had been made to larger customers. Much of the high delivery cost is to be attributed to the fact that a large part of the sales were made in one or two case lots to small retail stores situated in less thickly populated areas.

General and Administrative Expenses.—The general and administrative expenses increased from 10.1 per cent of the total pool expenses in 1928 to 14.4 per cent in 1929. The actual expenses were \$21,043.83 and \$26,926.85, respectively. This represented a cost of 17 cents a case in 1928 and 22 cents a case in 1929. The detailed expenses are given in table 24.

TABLE 24
GENERAL AND ADMINISTRATIVE EXPENSE,
POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1928 AND 1929

	1928	1929
Salaries.....	\$10,405.91	\$15,065.96
Stationery, printing, and postage.....	3,214.33	3,333.96
Rent.....	1,899.96	2,199.96
Insurance and taxes.....	2,347.07	2,630.36
Legal and auditing.....	1,893.50	2,228.47
Miscellaneous (including heat, light, water, depreciation, telegraph, and telephone, etc.).....	3,383.06	3,568.14
Total costs.....	\$23,143.83	\$29,026.85
Less proportion transferred to corporation expense	2,100.00	2,100.00
Net general and administrative costs.....	\$21,043.83	\$26,926.85

Source of data: Records of Poultry Producers of Southern California.

While there was an increase of expense under each one of the headings shown in the above statement, salaries accounted for the bulk of the higher administrative costs. This was due to certain adjustments between the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association whereby the former association contributed a larger share of the joint general and administrative costs.

It might have been possible for the Poultry Producers of Southern California to have made certain savings through adjustments in its office force. The total cost of administration, however, would not increase or decrease proportionately to changes in the volume of eggs handled. It is probable that the Association could have operated on a more extensive scale without much further increase in pool administrative costs. On the other hand, a decrease in the volume of eggs handled would not have been offset by a decrease in these costs. Any important decrease in the unit administrative costs could be secured only through an increase in turnover.

Deduction for Corporation Expenses.—A fixed charge of 1/10 of a cent a dozen was deducted from the pool income for general corporation expenses. In addition, the pool was debited with interest on corporation funds used for pool purposes. The amounts deducted for these two items amounted to \$9,903.01 in 1928 and \$6,697.36 in 1929. These figures represented 4.8 per cent of the total pool expenses in the former year and 3.6 per cent in the latter, or 8 cents and 5 cents a case respectively.

Corporation Income and Expenses.—Corporation income decreased from \$23,931.81 in 1928 to \$22,485.38 in 1929, the decrease being due almost entirely to smaller deductions from the 1929 pool. While income decreased, the total expenses increased from \$18,975.15 in 1928 to \$20,775.45 in 1929. The higher costs in 1929 were due largely to an increase in the cost of stockholders' meetings and to the cost of field work, for which there was no expense in 1928. The net result of the lower income and higher expenses in 1929 was a decrease in net corporation profits from \$4,956.66 in 1928 to \$1,709.93 in 1929.

Although that part of the corporation income represented by rent from the Industrial Street property and dividends from the Poultrymen's Cooperative Milling Association had no relation to the volume of business transacted by the Poultry Producers of Southern California, income from the 1/10 cent deduction tended to vary with increases or decreases in turnover. On the other hand, corporation expenses would not be affected to any marked extent by fluctuations

in turnover. It is probable that the Association could have handled a very much larger volume of business with little or no increase of corporation expenses.

Comparison of Costs of Operation of Poultry Producers of Southern California with Those of Other Cooperatives Handling Eggs.—An analysis was made of the costs of operation of the Poultry Producers of Southern California in comparison with other cooperatives handling eggs. It was necessary in so doing to make several adjustments, because the services rendered were not in all cases comparable, conditions under which the organizations operated varied, and differences in accounting procedure were found. A few of the more important comparisons that were made together with a brief statement of the operations of other associations are given below.

The Poultry Producers of Central California, with headquarters in San Francisco, handled a large proportion of the eggs produced in the densest poultry section in California. In addition, the Poultry Producers of Central California supplied its members with feeds and poultry supplies and handled dressed and other poultry on their behalf. This association shipped large quantities of eggs to eastern markets and sold eggs to both the wholesale and retail trade in San Francisco and other cities in California.³⁰

A comparison was made of the cost of marketing eggs during June, 1930, in twelve cities in central California by the Poultry Producers of Central California and in Los Angeles by the Poultry Producers of Southern California.

There was little difference between the costs per case of the two associations in sorting, candling, and handling eggs; but the selling, delivery, and general operating expenses of the Poultry Producers of Central California were less than half those of the Poultry Producers of Southern California. The lower per-case cost of selling and delivery of the Poultry Producers of Central California was due in part to the fact that the cities of San Francisco and Oakland, where the bulk of the local sales were made, are more compact than Los Angeles. Most of the difference, however, was due to the conditions and manner in which sales were made by the two associations and to the volume handled. The former association had been jobbing eggs for a number of years and had established a large body of regular customers. It was thus able to make many sales by telephone. The Poultry Producers of Southern California, on the other hand, had been jobbing

³⁰ For a detailed description of the operations of the Poultry Producers of Central California, see: Swarthout, A. V. An analysis of the business of the Poultry Producers of Central California. U. S. Dept. Agr. Cir. 111:1-52. 1930.

eggs for just over two years and sales had to be negotiated through salesmen, who had to travel long distances between customers. The larger volume handled by the Poultry Producers of Central California was another important factor, for the per-case costs of selling and delivery do not increase in proportion to the volume handled.

The lower unit costs for overhead and general administrative expenses of the Poultry Producers of Central California were due almost entirely to the difference in volume handled and to the fact that part of the general overhead was borne by the feed and poultry products departments.

The Challenge Cream and Butter Association, with headquarters in Los Angeles, was formed originally to market the butter and other dairy products of its member associations. A few years ago this association undertook to supply its customers with eggs as well, for it was thought that eggs could be handled with little extra selling and delivery cost. At the same time the handling of eggs increased the association's selling strength, because it was able to provide customers with a wider list of products.

The Challenge Cream and Butter Association received only a small part of its egg requirements from its member associations. The balance was purchased in Los Angeles from jobbers, packers, and from the Poultry Producers of Southern California. Part of the selling, delivery, and general overhead expenses were allocated to the egg department on a unit basis. This spreading of costs over several commodities enabled the Challenge Cream and Butter Association to sell and deliver eggs at about 10 cents less per case than the Poultry Producers of Southern California.

The San Diego Cooperative Poultry Association, with headquarters in San Diego, handled both eggs and feeds, with feeds as the main part of the business. Up to 1929 there were two separate associations in San Diego, the one handling feeds and the other eggs. As most of the stockholders in the one association were also members in the other, it was decided to merge the two associations. It was decided that the main business of the new association would be to supply members with feed. Eggs were handled on behalf of members merely as a subsidiary function. Members could ship their eggs to the association or sell them to independent dealers as they saw fit.

This association allocated its costs of operation on a somewhat different basis from that of the other associations. As the feed department was considered the main part of its business, this department bore all the overhead costs which it would have had to meet if feeds

only were handled. Only such additional costs as were involved in handling eggs were charged to the egg department. For example, the egg department was debited with the cost of materials, candling, and grading. It bore only a small part of the manager's salary. A telephone switchboard was required for the feed department. An extension took care of the egg department. This department was thus charged only with the cost of the extension, rather than with a proportional share (on a dollar, volume, or some other basis) of the total expense of the telephone system.

The San Diego Cooperative Poultry Association sold a large part of its eggs to jobbers and chain stores, many of whom took delivery of the eggs at the plant of the association. Owing to the small volume of eggs which this association handled and to the fact that a large part of its sales were in lots of five cases and more, it was not necessary for it to employ a full-time salesman. The soliciting of business was done by one of the candlers.

The method of operation above described permitted the San Diego Association to operate on a very low margin.³¹ This enabled it to compete with independent jobbers and packers who handled eggs as a 'leader' in conjunction with several other products.

In summarizing the foregoing discussion of costs, the principal point is that regardless of the factors which were responsible for the variation in costs, the costs of the Poultry Producers of Southern California were higher than those of other organizations.

No attempt was made to obtain costs of operation of agencies other than cooperatives selling eggs in southern California. The margin on which independent dealers handled eggs during the month of June, 1930, appeared to be between \$0.90 and \$1.20 a case, or between 3 and 4 cents a dozen. It was generally felt by many individuals in the wholesale trade that this margin was too small to cover operating expenses plus a reasonable profit. In the light of the analysis presented above (pages 60-71) it was undoubtedly too small for an agency handling eggs alone in small volume to be successful.

³¹ Its cost of handling and marketing 2,967 cases of eggs in June, 1930 was 63 cents a case, made up as follows:

	<i>Cents per case</i>
Candling, grading, and packing.....	39.3
Selling	7.2
Additional overhead incurred in handling eggs	16.5
	<hr/>
	63.0

SALES METHODS AND POLICIES

It was pointed out previously (pages 7–10) that egg marketing conditions in Los Angeles have changed considerably since 1916 when the Poultry Producers of Southern California was formed. This had an important bearing on the operations of the Association; it had to modify its sales methods and policies from time to time in an attempt to meet the new situation. It was handicapped in doing so because its form of organization, designed for an association operating in a surplus market, was not well adapted to the changed marketing conditions.

Sales in the Los Angeles Market.—Prior to 1927, the Association sold primarily to the wholesale trade. This proved unsatisfactory, however, because it left the Association without an assured outlet for its receipts from producers and without a satisfactory outlet for the eggs placed in storage. Furthermore, the fact that the Association was in competition with several of the wholesale egg dealers in the collection of eggs from poultrymen made it difficult to work harmoniously with them.

The importance of this situation as an influence on the Association's sales methods is not immediately apparent. One might assume that all the Association needed to have done to dispose of its eggs in wholesale quantities would have been to sell them on the Produce Exchange of Los Angeles. This is not the case. The Exchange functions primarily as a price-quoting organization rather than as a trading organization (see pages 25–26). Consequently, it is frequently impossible to sell large quantities at the wholesale quotation. Yet producers not familiar with the situation expected the Association to obtain the wholesale price.

The situation with reference to practices in selling eggs taken out of storage must also be understood in order to appreciate the position of the Association when it sold only to the wholesale trade. It was pointed out in the discussion of prices (page 24) that quotations are not made on storage eggs. It was also pointed out that it is the practice of the wholesale trade to mix storage eggs with eggs of current production sold to retailers. This practice makes possible a higher return on storage eggs than if they had been sold at wholesale. This is not possible unless other than wholesale outlets are available.

As a result of the above conditions in the wholesale market, the Poultry Producers of Southern California undertook the jobbing of

eggs to the retail trade.³² However, as was pointed out in the section on comparative costs of operation (pages 70-71), this procedure, with the relatively small volume handled by the Association and the conditions both structurally and competitively in the Los Angeles market, was expensive.

An attempt was also made by the Association to sell to consumers at retail stands in public markets and by house-to-house delivery. This proved decidedly unprofitable and was abandoned.³³

The situation with reference to sales methods in Los Angeles was, therefore, an acute problem of the Association. Without control of enough volume to dominate the wholesale market, it was unsatisfactory to depend upon wholesale outlets only, and with small volume and with only one commodity it was expensive to go beyond the wholesale market. A possible solution has been pointed out in the recommendations presented to the Association (pages 89-90).

Sales in Eastern Markets.—It was shown in the discussion of price relations between various markets (pages 22-23) that during certain periods of the year, the Los Angeles market is, from a price standpoint, a surplus market. During these periods the Association, through its membership in the Pacific Egg Producers³⁴ rendered a distinct service to its members and to the poultrymen of southern California as a whole, by shipping eggs to eastern markets, thus relieving the Los Angeles market. With control of a substantial volume of locally produced eggs it should be possible for an association to ship large quantities of strong-shelled eggs to eastern markets and thus take advantage of the higher prices for eggs in eastern markets, which is impossible with small volume.

Sales on a Quality Basis.—One of the objectives of the Association had been to improve the quality of eggs to the consumers. Los Angeles was notorious as a low-quality egg market. It was felt that if the quality were improved, egg consumption would be stimulated and at the same time the producer of high-quality eggs would receive a premium for his efforts.

³² The Poultry Producers of Central California had similar experiences in San Francisco and Oakland. See: Swarthout, A. V. An analysis of the business of the Poultry Producers of Central California. U. S. Dept. Agr. Cir. 111:44-45. 1930.

³³ The San Diego Cooperative Poultry Association also operated a retail store, but according to Mr. G. C. Keeney, Manager, it was operated at a loss.

³⁴ For a discussion of the Pacific Egg Producers see: Swarthout, A. V. An analysis of the business of the Poultry Producers of Central California. U. S. Dept. Agr. Cir. 111:46-47. 1930.

The Association adopted, therefore, a strict candling and grading program. It packed high-quality eggs under the brand 'Calawhite,' hoping to create a demand for better eggs.

This is a commendable objective as a long-time policy, and an objective which has been realized by several leading cooperative associations. However, it is an expensive procedure to educate both consumers and producers as to the factors making for quality in eggs (see pages 14-19). Considerable progress was made, but the Association was not able to obtain consistently higher prices to compensate for the extra costs involved. Evidence indicated, however, that this procedure was beginning to bear fruit in 1930. Many new accounts were secured because of the Association's reputation for quality. Nevertheless, the policy of strict grading and candling without added compensation worked a hardship on members and was to some extent responsible for the decline in volume handled. This was given as one of the principal reasons by producers, who had at one time sold their eggs through the organization, for ceasing to deliver their eggs.

Storage Operations.—The sales policies of the Poultry Producers of Southern California were shown to be related to the problem of handling storage eggs (page 24). An analysis of storage operations amplifies this relation.

The seasonal fluctuation in egg prices induced the Association to place eggs in storage in the spring months for sale in the fall and winter months. The results of storage operations are shown in table 25. It will be noted that since 1927, when sales to retailers were begun, that storage operations have been profitable.

TABLE 25
RESULTS OF STORAGE OPERATIONS,
POULTRY PRODUCERS OF SOUTHERN CALIFORNIA, 1922-1929

Year	Profit (+) or loss (-) after deducting costs of storage, dollars	Year	Profit (+) or loss (-) after deducting costs of storage, dollars
1922.....	+\$25,000	1926.....	+\$ 1,000
1923.....	- 18,000	1927.....	+ 13,000
1924.....	- 52,000	1928.....	+ 7,000*
1925.....	- 33,000	1929.....	+ 15,000

* Data for the whole of 1928 were not available owing to a change in the method of handling storage accounts; complete data would probably have shown a larger profit.

The problem of the quantity of eggs placed in storage is one that the Association had to face every year. The policy in 1929 was to store only a quantity sufficient to supply customers in the fall. Contracts were made in the early part of the year for fall delivery. Such a procedure precluded the chance for profit above a merchandising profit which might have been realized if prices had advanced more than enough to cover storage costs. At the same time it guaranteed the Association a merchandising profit. It appears that until more is known about the factors affecting prices of eggs and the possibility of shifting risks on storage eggs by hedging, the policy followed by the Association in 1929 is a safer procedure than carrying large quantities of eggs in storage on a speculative basis.

Operations on the Produce Exchange of Los Angeles.—The Poultry Producers of Southern California was a member of the Produce Exchange of Los Angeles. This was felt to be desirable inasmuch as the Exchange is the price-registering mechanism. It was also felt that by trading on the Exchange the Association could exert a 'stabilizing' influence on the Los Angeles market.

It was shown in the discussion of daily prices (pages 27-29) that during certain periods of the year the daily fluctuations in prices are 'saw-toothed' fluctuations as contrasted to 'stair-step' fluctuations in the San Francisco market. The aim of the Association was to make the daily fluctuations more like those of San Francisco by trading on the Exchange. At the same time it was the policy of the Association to attempt to maintain the Exchange quotations at as high a level as possible in order to benefit poultrymen in southern California.

This policy proved to work to the disadvantage of the Association and was abandoned. The fact that the Exchange is primarily a price-quotation mechanism rather than a trading organization made it possible for quotations to be high but for sales among wholesalers to be made on a lower basis. The Poultry Producers of Central California experienced similar difficulties when it attempted to influence Exchange quotations in San Francisco.³⁵

³⁵ Swarthout, A. V. An analysis of the business of the Poultry Producers of Central California. U. S. Dept. Agr. Cir. 111:45-46. 1930.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

The inability of the Poultry Producers of Southern California, Inc. to make returns to members for their eggs comparable to the prices paid by competitors to nonmembers may be attributed to the fact that the form of organization adopted in 1916 was not suited to meet competitive conditions in the marketing of eggs in southern California. The Association, in its attempt to cope with these conditions and to expand the business, followed certain policies, which aggravated rather than lessened its difficulties.

Change in Marketing Conditions.—Prior to 1916 when the Poultry Producers of Southern California, Inc. was formed, poultry producers in southern California were faced with relatively low prices for eggs during the period of flush production each year. It was the general belief that eggs produced in southern California were not suitable for storing or for shipping to eastern markets. One of the immediate purposes for which the Poultry Producers of Southern California was formed was to provide machinery for taking care of the seasonal surplus. Although the Association was able to demonstrate during its first few years of operation that eggs produced in southern California were suitable both for storage and for shipment to eastern markets, it was unable to obtain any permanent advantage therefrom for its members because soon after 1917 most of the independent dealers undertook similar functions as a part of their regular activities.

During the first few years of its existence the Association shipped large quantities of eggs to eastern markets. During the past few years, however, shipments of eggs into the Los Angeles trade area have increased considerably even though production in the area has increased more rapidly than population. Although quantities of strong-shelled eggs are still shipped East every year, such shipments are not nearly so important as they were several years ago and are more than offset by the increased shipments into Los Angeles from central California and other parts of the Pacific Coast. During recent years shipment of eggs to eastern markets was a minor function of the Poultry Producers of Southern California. This factor seriously detracted from the usefulness of the Association.

Turnover in Poultry Producers.—During the past few years large numbers of persons, many of whom had no previous farming experience, purchased small holdings in and around Los Angeles County in the hope that they would subsequently be able to sell their property

for urban purposes at enhanced prices. Others purchased land to engage in the production of specialty crops such as citrus. In the meantime, many of them raised poultry as a means of securing an income. As soon as these holdings came within urban areas, or the orchards came into bearing, many of the owners sold them. In other cases, persons who found their chicken flocks did not pay, quit raising poultry. This led to a large turnover among poultrymen, which made it difficult for the Association to maintain a continuous membership.

Competition in the Marketing of Eggs.—The Poultry Producers of Southern California met with severe competition both in the purchase of eggs from producers and in the sale of such eggs to the wholesale and retail trade. Because of the scattered nature of the urban population of southern California many producers are able to make direct contacts with consumers for the sale of their eggs. In addition, large quantities of eggs are bought at the ranch by hucksters or pick-up men, whose operating costs are very low. Most independent wholesale dealers and packers purchase eggs direct from producers or from one or more hucksters.

Nearly all the wholesale dealers and packers handle several other products besides eggs. This gives them better bargaining power and enables them to spread their overhead and other costs over several commodities, whereas in the case of the Poultry Producers of Southern California, all costs had to be borne by one commodity, eggs. Many of the Association's competitors handled eggs merely as a leader for their other commodities. In such cases, part of the cost of purchasing and handling eggs was borne by the other commodities.

With the general trend for Los Angeles to become more of a deficit market, keener competition has developed among the various agencies operating in the Los Angeles wholesale market to secure eggs during the period of flush production each year for storage purpose. This is evidenced by the more frequent fluctuations in the daily prices of eggs in comparison with those on the San Francisco market. During the period of flush production for the past three years, prices in Los Angeles have ranged above those in San Francisco by more than the shipping differential. At this time large quantities of eggs were brought in from outside markets and fewer eggs exported to eastern markets. As a result, during the fall months (the period of slack production), when one might expect prices to have been higher than those in San Francisco, they have often been lower. Furthermore, during the periods of flush production, eggs have been

purchased from producers at and above the prevailing wholesale prices. Purchasers thus took no margin for handling eggs between the ranch and the wholesale market. It was expected that these costs would be offset by subsequent profits on storage eggs or by profits on other commodities.

This competition forced the Association either to purchase eggs from its members at current prices and risk making a profit on its storage eggs, or lower its prices to members. As the Association had incurred severe losses on storage eggs during several years and was unable to spread its costs over other commodities, it chose the latter course in 1929 and 1930. This naturally resulted in dissatisfaction among members. During 1927 and 1928 the Association attempted to 'stabilize' market prices by extensive operations on and off the Produce Exchange of Los Angeles, but its efforts proved unsatisfactory and costly, and this practice was abandoned.

Grading Standards.—There appears to have been some justification for the complaint made by many dealers that grading standards were not enforced effectively in either the wholesale or retail market. This worked a hardship on the Poultry Producers of Southern California and those wholesale dealers and packers who went to the expense of strict grading.

Relation Between Shippers and Stockholders.—Although it was intended that only producers should be members of the Association, the major proportion of stock of the Poultry Producers of Southern California was held during later years by persons who had ceased producing poultry or had discontinued shipping eggs to the Association. Consequently a conflict of interest arose between shippers and stockholders. The latter considered that they should have received interest on the money invested, while the shippers desired the maximum possible return on eggs supplied to the Association. This tended to cause friction and dissension within the Association.

Reserves.—While the Association had at different times accumulated substantial reserves, these were distributed among members in the form of pool dividends and interest on stock. At the end of the year 1929 the net worth of the Association consisted almost entirely of capital stock. The lack of reserves weakened the Association's financial position and made it difficult for it to secure short-term accommodations from banks.

Investment in Fixed Assets.—Practically 90 per cent of the Association's subscribed capital was invested in fixed assets (land, buildings, equipment, and shares of the Poultrymen's Cooperative Milling Association), a large part of which had a very low earning

capacity. As the land and buildings were not required for operating purposes, they were leased for a period of five years. The net return in the form of rent was just over \$1,000 in 1929, which amounted to about 1 per cent on the \$103,000 invested in this property. Owing to the overinvestment in fixed assets the Association was severely handicapped during recent years by a shortage of current working capital.

Membership Policy.—The Poultry Producers of Southern California did not develop a well-defined, effective, and consistent policy for maintaining contact with members. Owing to the rapid turnover among poultry producers, the membership problem was very difficult, but the efforts made to keep in touch with members were too sporadic and inadequate to be effective. The Association was subjected to continuous adverse criticism from its competitors, but little effort was made to counteract such criticism and to build up membership morale and interest in the Association.

Operating Costs.—The Association's costs of handling and selling eggs were higher than those of other cooperative associations in California and higher than those of its competitors. During 1928, 1929, and 1930, costs of candling, sorting, and packing were reduced considerably, and overhead and administrative expenses were decreased somewhat by affiliation with the Poultrymen's Cooperative Milling Association. Further important reductions in expense per unit could not be attained while the Poultry Producers of Southern California was handling only one commodity, eggs, a large part of which was sold in small quantities—two cases or less at a time.

Selling Policies.—Prior to 1927 the bulk of the Association's eggs (both current supplies and storage) was sold to wholesale dealers and packers or shipped for sale in eastern markets. The Association at one time operated stalls on several local produce markets, through which small quantities of eggs were sold at retail. This method of sale was abandoned in 1929. The absence of outlets to retail stores placed the Association in a weak bargaining position, for dealers purchased eggs from the Association only when they could not obtain sufficient supplies from other sources. On several occasions the Association was forced, by prevailing conditions, to incur severe losses on storage eggs. Furthermore, by selling only to the wholesale trade it was able to secure for its members little benefit from making available a carefully graded product. For these reasons it was decided in 1928 to develop a trade for eggs with retailers.

The Association found considerable difficulty in expanding its sales to retailers and in obtaining the patronage of the larger stores.

Large quantities of eggs were sold to widely scattered small stores in lots of two cases or less. This entailed high selling and delivery costs. Conditions during 1930, however, indicated that the Association had secured a permanent status with retailers. During 1930 its sales to retailers were greatly in excess of its sales on the wholesale market.

While the Poultry Producers of Southern California attempted to adjust its operating and selling policies to the marketing conditions above described, it was handicapped because its form of organization was not adapted to economical operation. It was apparent that the Poultry Producers of Southern California as it was organized could not operate on a sufficiently low margin to be able to make returns to members comparable to those received by nonmembers.

Functions of a Cooperative Poultry Association in Southern California.—Although competition in the handling of eggs is keen and the handling margin is small, a cooperative association for marketing eggs has a place in the Los Angeles market. Such an association, if organized on a basis which would enable it to function economically, would tend to force competitors to continue to operate on a low margin of profit and to eliminate certain undesirable marketing practices. It could also insure a permanent outlet for the eggs of its members should independent dealers at any time cease to purchase eggs from producers. In addition, the association could do much to improve consumer demand for members' eggs by continually making a high-quality product available to retailers. Another function which such an association could perform would be to ship eggs to eastern markets whenever price conditions made this practice advisable. Furthermore, if a large part of the eggs shipped into Los Angeles by other cooperative associations on the Pacific Coast could be handled by such an association, it would be able to exert a 'stabilizing' influence over local marketing conditions.

Form of Organization Necessary.—An examination of the internal structure and form of organization of successful cooperative poultry associations in California and elsewhere, showed that these associations handle feeds and other poultry products as well as eggs. In Los Angeles there were two separate and distinct corporate units, the one handling feed and the other eggs. The efforts made during the past few years to bring these two organizations into a closer working arrangement indicated that poultry producers in southern California were aware of the desirability of having only one association to handle both eggs and feeds.

It was difficult to accomplish a merger of these two associations, partly because of the different value of the equities of the stockholders in the two associations, and partly because there was considerable doubt as to the reasons for the nonsuccess of the Poultry Producers of Southern California. Another factor in the situation was that both concerns were stock corporations. Many of the stockholders were interested mainly in obtaining dividends on their investment.

It is considered that if eggs are to be marketed successfully by a cooperative association in southern California they must be handled in conjunction with poultry feeds and other poultry products. Neither the Poultrymen's Cooperative Milling Association, nor the Poultry Producers of Southern California, as they were organized, were particularly well suited to undertake these joint functions. The Poultrymen's Cooperative Milling Association, while it had certain cooperative features, was regarded by most poultrymen in southern California as an ordinary business corporation, in which the payment of dividends was a primary consideration. Moreover, a large part of the feed of the Poultrymen's Cooperative Milling Association was sold to poultrymen who were not stockholders. The milling association was thus subject to the federal income, the state, and other taxes payable by corporations. While the Poultry Producers of Southern California was more nearly cooperative in operation and set-up, its financial position was not such as would enable it to absorb the Poultrymen's Cooperative Milling Association.

It appeared that the interests of poultry producers in southern California would be served best by the formation of a new association organized on strictly cooperative lines and embodying sound business principles, which would replace the two associations above referred to in the handling of feeds, poultry supplies, eggs, and other poultry products. At the same time it was felt that it would be highly desirable that the experience gained and the machinery developed by the two old associations in the marketing of the various products should form the basis upon which the new association would operate.

In any proposal for the formation of a new association, however, due consideration had to be given not only to the interests of prospective members of a new organization but also to the equity of the stockholders of the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association. It would be unwise to burden a new association by requiring it to take over from either of the old associations any land, buildings, and equipment which it could not utilize advantageously.

A detailed plan for the reorganization of the cooperative marketing of eggs in southern California, in which due consideration was given to the factors above referred to, was recommended to the boards of directors of the Poultry Producers of Southern California and of the Poultrymen's Cooperative Milling Association in October, 1930.³⁶ These recommendations are set forth below.

Formation of a New Association.—It was recommended that the members of the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association form a new, strictly cooperative association, with headquarters in Los Angeles, to market feeds, supplies, eggs, and other poultry products, the new association to be registered under the California Cooperative Marketing Act.³⁷

As the machinery and equipment which the new association would take over from the two old associations were adapted only to the handling of feeds, supplies, and eggs, it was recommended provision should be made as soon as feasible for the handling of dressed and other poultry products as well.

Basis of Purchase and Sale of Assets.—It was suggested that the new association purchase from the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association, on a basis to be agreed upon,³⁸ all of their current assets and such of their fixed assets as it would require to carry on its operations, and also assume the current liabilities of the two old associations but not their liabilities to their stockholders. As the new association would not be able to utilize economically the land and building on Industrial Street, Los Angeles, belonging to the Poultry Producers of Southern California and certain real estate owned by the Poultrymen's Cooperative Milling Association, it was proposed that these be excluded from the transaction, and that these two associations should discontinue active operations but remain as holding companies in the process of liquidation.

The new association should issue to the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association certificates of interest³⁹ in proportion to the value of the

³⁶ Certain minor amendments were made by the board of directors of the two old associations to the plan originally recommended. The plan of reorganization, as amended, was presented by the boards to a joint meeting of the stockholders of both associations on December 29, 1930, when it was approved of unanimously. The new association, known as the Poultrymen's Cooperative Association of Southern California, commenced operations on April 1, 1931. The majority of the members of the two old associations joined the new association soon after it was formed. The by-laws of the new association are shown in the Appendix.

³⁷ Part 4, Division 1, Title 23, Section 653aa to 653xx, Civil Code of California; approved May 4, 1923; amended 1925; amended May, 1927.

³⁸ The basis agreed upon was book value.

assets it took over from each of these associations, less the amount of current liabilities assumed on their behalf; these certificates to bear a rate of interest not to exceed 6 per cent and to be redeemed by the new association over a period of years.

The two old associations would have as their assets the certificates of interest issued to them by the new association and such fixed assets as were retained by them. Their liabilities would consist of the share capital held by members. The income of these associations would consist of rent on the property retained by them and of the interest to be paid by the new association on the certificates of interest. Operating expenses of these inactive associations should be nominal. Any yearly income in the form of rent or interest, after deduction of operating expenses, could be distributed among stockholders as cash dividends on share capital. As the land and buildings retained by the associations are disposed of and as the certificates of interest are redeemed by the new association the proceeds could be distributed among stockholders as liquidation stock dividends.

The new association would have as its assets the current and fixed assets taken over from the Poultry Producers of Southern California and the Poultrymen's Cooperative Milling Association and as its liabilities, the current liabilities assumed on behalf of these associations and the certificates of interest.

Internal Structure for New Association.—The proposed internal structure for the new association is shown in figure 12. Membership in the new association should be restricted to producers only, the membership certificate required of each new member costing \$5 or \$10, the money so contributed to be utilized by the association and to be returned to members upon resigning from the Association. Members may be required to execute a marketing agreement,⁴⁰ but provision should be made to permit members to take advantage of higher prices paid during some years by independent dealers by giving at least three weeks' notice of their intention to discontinue shipping eggs to the Association. On the other hand, the Association might stipulate that members give three weeks' notice when they wish to begin shipping again. Provision should be made to permit members to withdraw from the Association, at certain stipulated periods, preferably at the end of any financial year.

³⁹ A certificate of interest indicates that the holder thereof has a claim on or equity in the issuing concern to the face value of the certificate. It is similar to a promissory note, except that in the event of liquidation the holder of a certificate of interest is a secondary or residual creditor.

⁴⁰ A contract is not considered essential unless the Association makes application for loans from the Federal Farm Board.

Voting should be confined to members only, each member to be allowed one vote by virtue of his membership, and additional votes, not to exceed four in number, according to the volume of business transacted with the Association during the preceding year.

INTERNAL STRUCTURE OF NEW ASSOCIATION

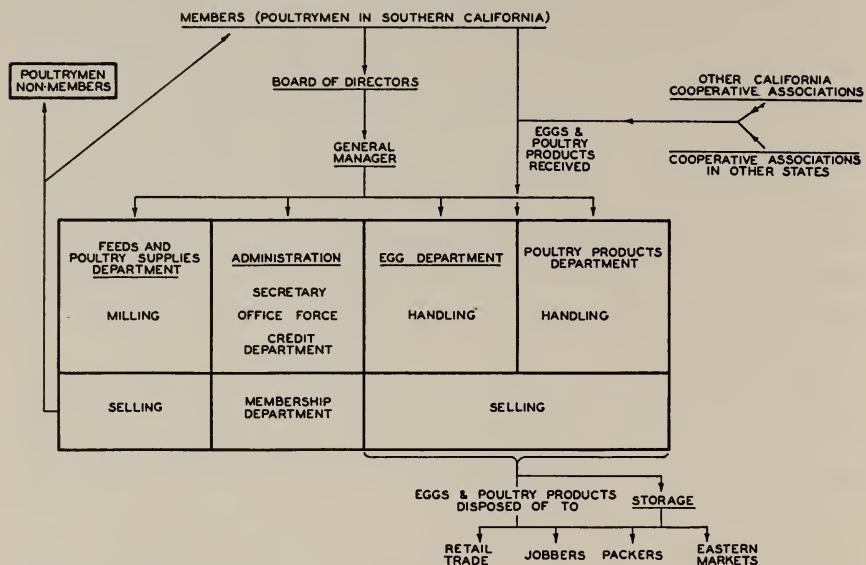


Fig. 12.—The new association will handle eggs, feeds, and other poultry products.

It was considered that, while representation on the board of directors should be mainly on a district basis, two or more directors be elected to represent the poultry industry in southern California at large. It was therefore suggested that the corporate powers of the new association be vested in a board of nine directors, six of whom to be elected by districts and three at large.⁴¹ The nine elected directors should be elected for a period of three years, three retiring annually, such a procedure tending to insure greater continuity of policy.

As it seemed highly desirable that the affairs of the new association should be conducted during its first few years of operation by persons who had had experience in the operation of the two old associations and who were acquainted with conditions leading to the reorganiza-

⁴¹ The boards of directors of the two old associations considered that a tenth director should be appointed by some public authority to represent the interests of the general public. Provision was made accordingly, in the articles of association and by-laws finally adopted, for the inclusion of an appointed director.

tion, it was recommended that the founders of the new association, on whom devolved the duty of electing the first board of directors, elect three members from the board of directors of the Poultry Producers of Southern California and three from the Poultrymen's Cooperative Milling Association and the remaining three at large. In electing the first board of directors, consideration should be given, as far as feasible, to representation of the various districts in which the new association is to operate; three of the nine directors so elected to hold office for three years, three for two years, and three for one year. As these directors retire their successors should be elected as set forth above.

A revolving fund should be set up into which should be paid a certain percentage of the value (or a fixed sum per ton) of feed purchased by each member and $\frac{1}{2}$ cent a dozen to be deducted from the returns made to members on eggs delivered to the Association. The revolving fund could be augmented, if possible, by a contribution from the profits made each year by the new association.

The funds accumulated annually in the revolving fund should be utilized to retire the certificates of interest issued to the Poultry Producers of Southern California and Poultrymen's Cooperative Milling Association. As these certificates are retired, certificates for a like sum should be issued to members in proportion to their contribution to the revolving fund, the certificates of interest issued to members bearing interest at a rate not to exceed 6 per cent and in turn also being redeemable through the revolving fund.

Suggested Membership and Operating Policies.—It was recommended strongly that the new association provide for a membership department under a competent official, the main function of this department being to educate members concerning the affairs of the association and concerning the economic conditions of the poultry industry generally. Every effort ought to be made to secure continuous and intelligent interest of members in their association. The membership department would deal with any cause for dispute between members and the association, and would acquaint the board of directors and the manager of any irregularities or cause for discontent. It should investigate and suggest methods for the development of a more harmonious relation between the association and its members. Another function of the membership department would be to secure new members for the association.

Large quantities of eggs and poultry products are shipped into Los Angeles annually by other cooperative associations on the Pacific Coast. The status of the new association would be strengthened considerably and its per-unit operating costs reduced if it could make

arrangements with one or more of these associations to handle on a brokerage or some other basis part or all of the merchandise shipped into Los Angeles.⁴² Such an arrangement would appear to be in the best interests of poultrymen in southern California and of all the cooperative associations on the Pacific Slope which ship eggs and poultry products to the Los Angeles market.

The handling of feeds should be regarded as the main business of the new association, eggs and poultry products being handled as a subsidiary function. It was suggested that the feed department bear all the costs both overhead and general which would be incurred if feeds only were handled and that the eggs and poultry products departments bear only such additional costs as are attributable to their handling. This should enable the new association to operate its egg and poultry departments on a basis more nearly comparable to that of its competitors.

While it is anticipated that the operations of the new association should benefit poultry producers in southern California generally by insuring keen competition in the marketing of eggs, it must be understood clearly that the association's primary function is to operate for the benefit of its members and affiliated associations. Whenever there is any conflict of interest between the interests of members and nonmembers its sales policies ought to be dictated by its own position on the market rather than by a feeling that the association should attempt to hold price levels at a point which may benefit all producers. The better the showing an association can make for its members as compared with what is done by others, the more it is likely to win the support of poultry producers generally.

The new association should concentrate on the jobbing of eggs to the larger retailers. Owing to the excessive selling and delivery expense involved in disposing of eggs to the smaller retailers, who take only one or two cases at a time, arrangements should be made, if possible, for the Challenge Cream and Butter Association to take over the smaller accounts. As the latter association operates several jobbing routes for butter, milk, cream, and eggs, it should be able to handle eggs on a much lower cost basis than would the new association. Whenever conditions justify, sales should be made to wholesale dealers and packers and eggs should be shipped to eastern markets.

Until such time as the new association had built up substantial reserves to withstand possible heavy losses from storage operations,

⁴² During 1930 the Poultry Producers of Southern California handled the bulk of the eggs shipped into Los Angeles by the Poultry Producers of Central California, Inc. and the San Diego Poultry Association.

only such quantities of eggs should be stored as it is anticipated would be necessary to meet its jobbing requirements during the months of low production each year.

Although it should be the purpose of the new association to supply members with the various kinds of feeds at prices as low as possible, it would seem that it would be best not to attempt to undersell its competitors. Its prices should, as far as possible, be in line with the prices of its competitors for the different kinds of feeds. Any profits made in the feed department could be returned to members as patronage dividends at frequent intervals. In this respect the association should operate much on the lines of consumer cooperative associations.

It is highly desirable that provision be made out of the yearly earnings of the association for the accumulation of adequate reserve funds.

Economies Possible Under Plan of Reorganization.—The new association would have only one set of administrative expenses in connection with board and stockholders' meetings, accounting, auditing, legal expenses, in place of two as under the previous set-up of the two separate associations. Furthermore, as the new organization would be strictly cooperative it should not have to pay as high trading and income taxes as was necessary in the case of the Poultrymen's Cooperative Milling Association. A cooperative association should not encounter so much difficulty in selling feeds to its members. It might also be possible to secure economies in the delivery of feed and collection of eggs if both were done by one organization.

Further reductions in unit costs of operation should result from a larger volume of business. This could be attained by handling poultry products other than eggs, by handling part of the products shipped into Los Angeles by other cooperative associations on the Pacific Coast, and by winning increased support from poultrymen in southern California. As many of the criticisms of poultrymen against the set-up and policies of the two old associations would be removed in the the case of the new association, increased support from local poultrymen should be expected.

Possible Future Development.—It is probable that if the other cooperative associations on the Pacific Coast ship increasing quantities of eggs and poultry products into Los Angeles they will want a greater degree of control over the sale of such merchandise. It was suggested that, should such a situation arise, a central selling agency similar in structure to the Pacific Egg Producers, Inc., in New York should be established in Los Angeles, to which all the interested associations, including the new association, could belong. The new association in

southern California would in such an event confine its operations to supplying feed to members and to collecting and grading eggs and other poultry products received from its members. The sale of its eggs, together with those of other member cooperative associations, would be intrusted to the central selling association.

Such an arrangement would seem to be a step toward that coordination of effort among cooperative associations which so many agricultural leaders deem essential to the progress of the cooperative movement.

ACKNOWLEDGMENTS

The authors are indebted to Professor H. R. Tolley, Professor E. C. Voorhies, Professor L. B. Smith, Professor H. E. Erdman, Professor W. F. Holst, and Mr. W. E. Newlon, all of whom are members of the staff of the College of Agriculture of the University of California, for valuable suggestions and criticisms while this study was being conducted.

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Mr. W. M. Cory, Assistant Farm Advisor of Orange County, and Mr. C. V. Castle, Assistant Farm Advisor of Los Angeles County, assisted the authors in the collection of material from producers.

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Finally, the authors wish to express their appreciation to the Boards of Directors of the Poultrymen's Cooperative Milling Association and the Poultry Producers of Southern California for the many courtesies shown them and for the splendid spirit in which they have received the recommendations in this study, which were adopted and put into effect upon completion of the study.

APPENDIX

BY-LAWS OF POULTRYMEN'S COOPERATIVE ASSOCIATION OF SOUTHERN CALIFORNIA

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned, collectively constituting and being all of the incorporators, directors and members of Poultrymen's Cooperative Association of Southern California, do hereby adopt the following Code of By-laws as and for the By-laws of said Association, all in harmony with the provisions of the Cooperative Marketing Act of the State of California.

ARTICLE I.—ORGANIZATION

The Association adopting these By-laws, and for the conduct and control of whose business and affairs these By-laws are made, is

POULTRYMEN'S COOPERATIVE ASSOCIATION OF SOUTHERN CALIFORNIA, organized and existing under the Cooperative Marketing Act of the State of California, as a nonprofit, cooperative Marketing Association without capital stock, its original Articles of Incorporation having been filed in the office of the Secretary of State of the State of California on January 31st, 1931, the City of Los Angeles, County of Los Angeles, State of California, being the place where the principal office for the transaction of the business of the Association is to be located.

ARTICLE II.—PRINCIPAL PURPOSES

Section 1. Marketing and Service. The Association was organized for mutual help in the interests of the producing and consuming public, for the purposes of creating a central agency to foster and standardize the production of ranch and farm, with particular reference to the egg and poultry industry; and, through the extension of markets, a more equitable distribution, a centralized purchasing power, and the elimination of speculation and waste, enable the Producer to purchase his requirements, and obtain for his products a reasonable price while at the same time assuring to the consumer a constant supply of standard quality at a fair market price, uninfluenced by artificial fluctuation or speculative control.

Section 2. Limitation. The Association shall confine its operations primarily to the collection, preparation for market, distribution, and marketing of agricultural products and by-products; to the purchase, preparation for use, and merchandising of feed, supplies and other requirements of those engaged in agricultural pursuits; to the rendition of such further service for its Members and Producers generally as may come within the legitimate scope of its objects and purposes as stated in its Articles of Incorporation, and to the conduct of such other business and affairs as may be incidental to the accomplishment of its primary purposes or tend to promote the welfare of Producers, all as determined by its Board of Directors.

Section 3. Service to Non-Members. The Association may conduct purchasing, marketing or other operations, or render service for Non-Members in a total amount not greater than the value of the products in which it may

deal or handle for its Members, subject only to such limitations as are contained in the Cooperative Marketing Act of the State of California, as now in effect or hereafter amended, and the further limitation that any revenue accruing from such source shall go to reduce the cost of operation for its Members.

Section 4. **Non-Profit Character.** Irrespective as to any other provision herein, or in its Articles of Incorporation, or elsewhere contained, the business of the Association shall be conducted without profit to the Association, as such, and upon a non-profit cooperative basis for the benefit of its Members, the Producers in ultimate interest.

ARTICLE III.—MEMBERSHIP

Section 1. **Eligibility and Character.** Membership in the Association shall be limited to such persons, firms, associations or corporations as are engaged in the production of eggs, poultry, or other agricultural products, including lessees and tenants of land used for the production of such products, and any lessors or landlords who receive as rent all, or part of the production from such leased premises.

Section 2. **Representative Membership.** If a member of the Association be other than a natural person, such Member may be represented, from time to time, by any associate, officer, or manager or other designated agent, duly authorized in writing so to act, who, while so acting in such representative capacity, shall be entitled to have and exercise all rights, privileges and authority of membership in the Association, including the right to hold any office, including that of Director.

Section 3. **Admission to Membership.** Application for membership shall be in writing signed by the applicant, and in such form as may be adopted and approved by the Board of Directors of the Association, and a Member shall be admitted to the Association only upon full compliance with all of the terms and conditions imposed by the Association as a condition for Membership, and may remain a Member of the Association only so long as qualified for membership under the provisions of the Cooperative Marketing Act of the State of California.

Section 4. **Membership Fee.** Every Member upon admission to membership, or at such other time as may be specified by resolution of the Board of Directors shall pay a membership fee of Ten Dollars thereupon.

Section 5. **Obligation of Members.** All Members, irrespective as to whether or not any specific obligation be assumed at the time of the acquisition of Membership, by applying for and accepting membership, shall thereby undertake and agree to be bound and abide by, and comply with, the Articles of Incorporation and By-laws of the Association, and all rules and regulations as, from time to time, may be adopted in accordance therewith or pursuant thereto.

Section 6. **Fines and Penalties.** The failure of any Member to comply with any provisions contained in these By-laws, or with any rule or regulation promulgated pursuant hereto, shall subject such Member to a fine or penalty in such reasonable amount as may be fixed by the Board of Directors of the Association, not exceeding \$10.00 for any single offense, a continued violation by the Member after demand for performance served on the Member personally by or under the authorization of the Secretary of the Association shall constitute a new, separate and independent offense for each succeeding day the Member continues in default. Any fine or penalty imposed pursuant hereto may be deducted from any amount for which the Association may be obligated or indebted to the Member and shall constitute a first lien on the Membership and any property or assets in the possession of the Association in which the Member may have any interest, however evidenced or certified. No fine or penalty, however, shall be imposed on any member until such Member has been given due written notice of the charge made and an opportunity to be heard in his own defense, such notice to contain a specification of the charge, the date, time and place of hearing, and shall be served on the Member in person or as in these By-laws provided for the service of notice of meeting.

Section 7. Purchase of Interest. The Association, at any time at its option, by action of its Board of Directors, may purchase the Membership and any or all of the property rights and interests of any Member in the property or assets of the Association or in any Special Fund or Funds held or retained by it, however certified or evidenced, whenever in the judgment of the Board such purchase would forward the general interests of the Association, upon the following terms and conditions:

(a) The purchase price to be paid for the Membership or other interest to be purchased, unless otherwise required by law, shall be the book value thereof as determined from the books of the Association. If any other or different basis for the determination of the purchase price is required by law, then the said purchase price shall be so fixed and determined.

(b) The term "book value" as in these By-laws used shall be construed to mean the proportionate net value at which the interest to be purchased is carried on the books of the Association, as determined by ordinary methods of accounting, without increment by reason of any established reserves, for depreciation or otherwise, such reserves for such purpose to be considered as an expense item.

(c) Whenever an appraisal of the membership or other interest of a member is to be made pursuant to legal requirement or otherwise, such appraisal shall be made by, or under the authorization of the Board of Directors of the Association with due regard to book and present cash value of the interest to be appraised, and the appraisal so made shall be final and conclusive in the absence of actual fraud as and whenever finally approved by the Board of Directors.

(d) Whenever payment is to be made by the Association for a Membership or other interest to be acquired by it, such payment may be made either in cash or by execution and delivery of the promissory note of the Association evidencing the total amount to be paid, payable in five equal annual installments after date and bearing interest from date at the rate of 6% per annum, payable annually.

(e) If anything herein contained be contrary to law, as the same now exists or under any other law subsequently adopted, then such part shall be eliminated but the remainder shall stand.

(f) Any Member whose Membership or other property rights and interests are purchased by the Association shall ipso facto cease to be a Member thereof and his Membership Certificate shall thereupon be cancelled.

Section 8. Membership Certificate and Transfer. The Association shall issue a membership certificate to each member, upon admission to membership, in such form and containing such provisions as its Board of Directors from time to time may determine, but neither membership, nor any certificate thereof, nor any interest of any member in the Association or in any property rights, or funds held by it, shall be transferable, nor shall the assignee or transferee, whether by voluntary assignment, operation of law, or otherwise, acquire or have any interest therein or thereunder. The Board of Directors of the Association, however, may consent to, or authorize, the transfer of membership or interest, and may fix and determine the terms and conditions upon which such transfer will be permitted and recognized. In the event of the termination of membership, and failure, neglect, or refusal to surrender the membership certificate, or in case of lost or destroyed certificate, then the Association, upon such terms and conditions as it may impose, may issue another membership certificate in lieu and in place of the outstanding, or lost, or destroyed membership certificate.

Section 9. Termination of Membership. Membership in the Association may be terminated: (a) as and whenever the Member ceases to be eligible for membership under the provisions of the Cooperative Marketing Act of the State of California, or the Articles of Incorporation and By-laws of the Association; (b) by death; (c) by withdrawal; (d) by expulsion.

(a) In the event a Member at any time ceases to be eligible for membership as herein required, the membership theretofore held shall ipso facto

terminate upon the adoption of a resolution by the Board of Directors, so stating, or appropriate entry of record in the membership records of the corporation, under authorization of the Board of Directors.

(b) Any membership theretofore held shall ipso facto terminate upon the death of a Member.

(c) Any member shall be permitted to withdraw from membership upon filing an appropriate notice with the Association, payment of all membership obligations or other indebtedness to the Association, and obtaining the consent of the Board of Directors, to such withdrawal.

(d) The Board of Directors, after due notice, and an opportunity to be heard has been given to the Member, may expel from membership any Member whose retention is thought to be undesirable from the standpoint of the Association as a whole, and upon compliance with the provisions of law and these By-laws.

ARTICLE IV.—VOTING PRIVILEGES

Section 1. Voting Rights and Powers. The voting power of the Members shall be unequal and determined as follows:

Each Member shall have and may exercise a minimum of one vote, with one additional vote for each \$5,000.00 in volume of business transacted by the Member with or through the Association during the past ensuing calendar or fiscal year, as determined by or under the authorization of its Board of Directors and made of record on its books, no Member, however, to have or exercise in excess of five votes in all. The respective voting privileges of the Members shall be fixed and determined annually by the Board of Directors, or under its authorization, at least thirty days prior to the date fixed for each annual meeting of the Members of the Association, and when so fixed and made of record shall be conclusive as to the voting power to be exercised by the respective Members at the ensuing annual meeting and until the next succeeding annual meeting. Until and unless otherwise determined, fixed and made of record by, or under the authorization of, the Board of Directors, each Member shall have and exercise a single and but one vote. The additional voting right and privilege to be conferred pursuant hereto need not be considered in the determination of any question submitted to the vote of the Members or for any purpose unless demand for its exercise be made by the member, in which event the vote shall be taken by roll call or ballot.

Section 2. Limitations on Cumulative Voting. No Member shall have the right to cumulate his votes for the election of directors, or otherwise, or for any other purpose except in such instances as the right to exercise a cumulative voting privilege be specifically granted or reserved by law.

Section 3. Voting by Proxy. Each Member is hereby given the full, unrestricted right to vote or act by proxy.

Section 4. Voting by Mail. Upon the order of the Board of Directors, the Executive Committee, or the President of the Association, a vote of the Members may be taken by mail upon any question with the same effect as if at a meeting duly called and convened, and the right of the Members to vote by mail for the election of directors is hereby expressly confirmed.

Any question or questions to be submitted to the Members by mail vote shall be reduced to concise written form by the Secretary and mailed to each Member in accordance with the requirements imposed for the mailing of notice of special meetings of the Members, which such question or questions shall be in ballot form to enable the Member to express his vote. The Secretary shall enclose therewith a notice fixing the date and time at which all ballots will be opened and counted at the office of the Association, which date must not be less than fifteen days from date of mailing, and instructing the Member to return his ballot by mail in a plain, sealed envelope, enclosed in an envelope addressed to the Association, but with the appropriate notation to identify it as a vote by mail without violating the secrecy of the ballot. At the time and date fixed, the Secretary shall open, count and register the votes, in the presence of any and all Members in attendance, and thereupon announce and record the result.

ARTICLE V.—PROPERTY RIGHTS AND INTERESTS

Section 1. General Property Rights and Interests of Members. The property rights and interests of each Member of the Association in its general property and assets not credited or set aside to a special fund as in these By-laws provided, shall be equal, and each and every Member of the Association, irrespective as to the date of admission to membership, shall have but one single unit of interest therein.

Section 2. Special Funds. The Board of Directors of the Association, through appropriate resolution, may create and maintain, or provide for the creation and maintenance of such Special Fund or Funds, for such specific use or purpose as may be deemed appropriate, through advances, contributions, deductions from marketing returns, the imposition of an additional Association charge, or through any other source that may be made available and specified by resolution of the Board. No Member of the Association, merely as an incident of membership, shall have or possess any property right or interest in any Special Fund created, the respective and proportional rights and interests therein to be as limited and specified by the resolution creating the Fund or as set forth and declared in such certificates as may be issued by, or under the authorization of the Board of Directors to certify or evidence the same.

Section 3. Special Funds Subject to Rights of Creditors. Irrespective as to any other provision herein contained, or as to how created, evidenced, or certified, all money, property and assets standing to the credit of any Special Fund or Funds created pursuant hereto while held and retained by the Association shall be subject to the rights and claims of its creditors, and to the payment of its debts, liabilities and obligations, and may be hypothecated, mortgaged, or pledged, all in the same manner and to the same extent as its unallocated funds or properties, and shall be subject to distribution in whole or in part only as and whenever determined in the absolute discretion of its Board of Directors, and no certification shall ever be made of any right, title, interest or participation in any such Special Fund or Funds, without containing an appropriate saving clause through reference to this section of the By-laws, and a statement that the interests of the said certificate holder shall be subject to the prior rights of its creditors.

ARTICLE VI.—BOARD OF DIRECTORS

Section 1. Corporate Powers. The corporate powers of the Association shall be vested in, exercised and controlled by a Board of Directors numbering nine in all.

Section 2. Quorum. A majority of the Board of Directors shall constitute a quorum for the transaction of all business.

Section 3. Term of Directors. The term of office of the Directors of the Association shall be three years, and three directors shall be elected annually to hold office for the specified term of three years and until their successors are elected and qualified.

Section 4. Qualifications of Directors. No person shall be eligible to election as director other than a duly qualified Member of the Association, or a duly qualified representative of such Member if other than an individual. The Board of Directors of the Association, through the adoption of an appropriate resolution, may divide the territory in which its members reside into six districts and provide for the election of six directors by districts, one director from each district, the other three directors to be elected at large without regard to residential qualifications. After the territory has been districted pursuant hereto, neither the districts as created nor the apportionment of directors shall be changed except through the adoption of an amendment to this section of the By-laws of the Association.

Section 5. Nominations of Directors. Nominations of directors to be elected at large shall be made by petition signed by not less than twenty-five members and filed with the Secretary at least twenty days prior to the date of annual membership meeting. Nominations for directors to be elected from specified districts shall be made only through a district primary in which the right to nominate and vote shall be limited to the members residing within that specified district. Candidates to be voted upon at a district primary shall be nominated by petition signed by not less than five members residing within that district and filed with the Secretary at least twenty days prior to the date of the annual membership meeting.

Section 6. Election of Directors. At least ten days prior to each annual meeting of Directors the Secretary shall mail to each member of the Association a notice of the date of the annual election of Directors, which date shall be the day upon which the annual meeting of the members is to be held as fixed by these By-laws. The notice shall state that the ballot box will close at 11 A. M. of the date of election and that a member may cast his ballot either in person or by mail and shall contain such further information as may be deemed essential to enable the members to vote by mail as provided in Section 4 of Article IV of these By-laws. There shall be enclosed with such notice a ballot on which shall be printed the names of all persons nominated for election as directors at large, and to each member as many ballots as he is entitled to votes: in addition there shall be enclosed with each notice sent to a member residing in a district for which a primary election is to be conducted, a ballot to be designated a "primary ballot" on which shall be printed only the names of those nominated for election as directors in that district, and to each member as many ballots as he is entitled to votes. At the time specified for the closing of the ballot box, the ballots shall be counted and registered, by the Secretary, or such other person or persons as may be designated by the Board of Directors of the Association, or by the members in meeting assembled. The results of the district primary so conducted shall be final, must be ratified at the annual meeting of the members and the person receiving the highest vote in each such district primary, together with the person or persons, if there be more than one director to be elected at large, receiving the highest votes on the general ballot must be declared elected to office. Except as otherwise herein provided, and, insofar as the same may be applicable, the provisions contained in Section 4 of Article IV shall apply to the conduct of election.

Section 7. Vacancies. A vacancy on the Board of Directors may be filled by the remaining Directors in office through the selection of a person having the same qualifications as required of the retiring director, and the person so selected shall hold office until the next regular annual election of directors, at which time his successor shall be elected for the unexpired term of the former director in the event that such term be not then terminated.

The office of any director who shall fail to attend three consecutive meetings of the Board of Directors of the Association, unless such attendance be prevented by illness or excused by resolution of the Board for a good and sufficient reason which shall be noted in such resolution, shall be ipso facto vacated and may be filled as other vacancies in office.

Section 8. Public Representation. In addition to the Board of Directors, as above constituted, the Board, by resolution duly adopted, may designate a public official, board, commission or institution in whom, by virtue of such designation, shall be vested the power to appoint a suitable person to participate in the activities of the Association as a representative of the public. Such person so to be appointed need not be a Member of the Association or possess qualifications for office other than such as may be required by the appointing power, shall hold office for the term of one year, and while in office shall have the same general rights and privileges as conferred upon the directors thereof, with his vote and recommendations at meetings made of record in the minute book of the Association.

ARTICLE VII.—POWERS AND DUTIES OF DIRECTORS

Section 1. Powers. The Board of Directors shall have power, in addition to all other powers granted to them by law or these By-laws:

1. To call special meetings of the Members whenever they deem it necessary.
2. To prescribe and pass upon the qualifications and requirements for membership; to consent to, restrict, the transfer or assignment of membership and other interests in the Association or the Funds held by it; provided, however, that action in the premises may be taken by any committee or officer authorized so to do by the Board of Directors.
3. To conduct, manage and control all of the business and affairs of the Association and in that connection to take such action and incur such expenditures, as, in the judgment of the Board, will best accomplish the primary purposes of organization as stated in its Articles of Incorporation or these By-laws.
4. To select, appoint, and remove, at pleasure, all officers, agents or employees of the Association, prescribe such duties and delegate such power as may not be inconsistent with these By-laws, fix their compensation, and require security for faithful service.
5. To prescribe, adopt and amend, from time to time, such equitable and uniform rules and regulations as, in their absolute discretion, may be deemed essential or convenient, for the conduct of the business and affairs of the Association, the guidance and control of its Officers and Members, and to prescribe adequate penalties for the breach thereof.
6. To establish such departments as may be deemed advisable or essential, and to determine such Association charge as is to be made for service rendered and the terms and conditions to govern the rendition thereof.
7. To borrow and loan money, incur indebtedness, and guarantee performance or payment of obligation for this Association, or others, the terms, conditions and amount thereof, to be entered on the minute book of the Association; to cause to be executed and delivered as evidence of obligation, liability or debt, the promissory note, bond, bill, mortgage or trust deed of the Association, and cause to be hypothecated, mortgaged, or pledged as security for any of its obligations, liabilities or debts any and all of the property, property rights, and interests of the Association, both real and personal, and in addition, any commodities that the Association may undertake to handle or market for others, or the proceeds of the sale thereof, and any property or assets allocated to, or set aside for, a Special Fund or Funds in its possession.
8. To designate by resolution from time to time such officers or agents as shall have power and authority to execute, for and in behalf of the Association, all necessary instruments in writing of every kind and nature; to sign checks and drafts of the Association and to endorse checks and drafts payable to the order of the Association; or to perform, for and in behalf of the Association, any and all acts of every kind and nature that may be so delegated.
9. To adopt, make and regulate the use of a corporate seal, and to prescribe the forms of membership and other certificates and to alter the form of such seal and such certificates from time to time, as in its judgment may be deemed best.

Section 2. Duties. It shall be the duty of the Directors, in addition to all other duties imposed by these By-laws or by law:

1. To cause to be issued to Members, from time to time and to those entitled thereto, membership and other certificates certifying or evidencing membership or other rights or property interests in the Association, or in any Special Fund created, and to determine the form and contents of such certificates.
2. To install such system of auditing and accounting as will enable a complete determination to be made of the financial condition of the Association and the property rights and interests of the Members.

3. To keep a complete record of all its acts and of the proceedings of its meetings, and to present a full statement at the regular annual meetings of the Members, showing in detail the conditions of the affairs of the Association.

4. To cause to be fixed and determined, from time to time, the amount to be charged and retained or collected for service rendered, or required to cover the cost of service, interest charges, loss and expense, or the requirements for working capital or Special Funds created.

5. To cause to be ascertained and determined annually, as soon after the end of the current calendar or fiscal year as may conveniently be done, the amount of the surplus or deficiency accruing, and to allocate and apportion the same in accord with the provisions contained in these By-laws, or any Marketing Agreement entered into pursuant hereto; to determine the amount of surplus, if any, to be retained as working capital or set aside for reserves, and, to issue appropriate certificates certifying or evidencing the interest of each of the parties entitled, which, when so issued, shall be conclusive, the intent hereof being to vest in the Board of Directors absolute discretionary power in the making of all allocations and apportionments of expense, surplus and deficiencies, in the expectation that the same will be exercised for the best interest of the Association as a whole.

Section 3. General Powers and Duties. In addition to the power specifically imposed upon the Board of Directors by these By-laws, the Board shall have the power and duty generally to do and perform every act or thing whatsoever, lawfully devolving upon a Board of Directors, unless these By-laws shall specifically otherwise provide.

ARTICLE VIII.—EXECUTIVE COMMITTEE

Section 1. Appointment. The Board of Directors may appoint, or provide for the appointment of an Executive Committee to consist of as many of its Members as it may designate. The Executive Committee shall conduct the business and affairs of the Association during the interim between Board meetings but subject to the general control of the Board of Directors.

Section 2. Minutes and Records. It shall be the duty of the Executive Committee to keep full minutes and records of all of its acts and proceedings and submit the same to the Board of Directors for approval.

Section 3. Powers Granted. The Executive Committee may perform any of the duties or functions, and exercise any of the powers or authority of the Board of Directors during the interims between meetings of the Board, except such as may be reserved to the Board by resolution thereof, or when otherwise provided by law. The Executive Committee shall organize as it sees fit.

Section 4. Vacancies. Vacancies in the Executive Committee shall be filled by the Board of Directors.

ARTICLE IX.—OFFICES

The office of the principal place of business of the Association shall be in the City of Los Angeles, County of Los Angeles, State of California, at such place as the Board of Directors may designate. Branch offices may, however, be established elsewhere as the business of the Association may require.

ARTICLE X.—OFFICERS

Section 1. Terms and Designations. All of the officers of the Association shall be elected or appointed by, and shall hold office at, the pleasure of the Board of Directors, and shall be a President, one or more Vice-Presidents, Secretary, and Assistant Secretary, a Treasurer, and such additional officers as may be provided by resolution of the Board. The same person may hold one or more offices.

Section 2. Alternative Provisions. In case of the absence or inability to act of a principal officer, or when otherwise so authorized by the Board, a secondary officer or assistant, or other person, may take the place of the principal officer and perform his duties with the same power and authority.

Section 3. Qualifications. The President and Vice-President only need be members of the Board of Directors.

ARTICLE XI.—PRESIDENT

Section 1. Powers and Duties. The President shall be the chief executive officer of the Association and he shall have the power, and it shall be his duty:

1. To preside over all meetings, regular and special, of the Members, and of the Board of Directors.

2. Subject to the advice of Directors, to direct and control the affairs of the Association.

3. To call, or provide for the calling of, special meetings of the Members, and also of the Board of Directors, to be held at such time or times as he shall deem necessary, and he shall call such meetings when so requested, as hereinafter provided.

4. To subscribe the name of the Association to all deeds, conveyances, mortgages, leases, promissory notes, contracts, obligations, certificates and other papers and instruments in writing that may require his signature, when required or authorized to do so.

5. To discharge such other duties as may be required of him by these By-laws, or the Board of Directors.

ARTICLE XII.—SECRETARY

Section 1. Duties. The Secretary shall be the custodian and have charge of all books, papers, instruments and records of the Association, unless otherwise ordered, and he shall have the power and it shall be his duty:

1. To keep, or cause to be kept, a full and complete record of the proceedings of the meetings of the Members, of the Board of Directors, and of the Executive Committee.

2. To keep the seal of the Association and to affix the same to all instruments designated by the Board of Directors, or the Executive Committee, and to such other instruments and papers executed in the regular course of business as require the affixing of the seal.

3. To keep the books of blank certificates of membership and interest; to fill up and sign all certificates issued and attach the corporate seal thereto; to transfer or cause to be transferred, upon the books of the Association, any and all membership certificates and certificates of interest, but only as expressly authorized by the Board of Directors.

4. To keep, or cause to be kept, proper account books.

5. To serve, or cause to be served, all notices, and make, or cause to be made, all publications required either by law or by the By-laws of the Association, or that may be necessary and proper, without other or further authorization therefor.

6. To discharge such other duties as may be required of him by these By-laws, or the Board of Directors. .

ARTICLE XIII.—TREASURER

Section 1. Duties. The Treasurer shall receive and keep all funds of the Association, and deposit the same in such bank or banks as may be designated by the Board of Directors. Such funds shall be paid out only on the check of the Association bearing the signature of two officers or bonded employees authorized to sign checks. A corporation may be named a Treasurer.

ARTICLE XIV.—MEETINGS**Section 1. Meetings of Members.**

1. Regular Meetings. The annual meeting of the Association shall be held at the office of the Association, in the City of Los Angeles, County of Los Angeles, State of California, on the last Monday in February, of each year, at 10:00 o'clock A.M., for the purpose of electing any and all Directors and transacting such other business as may come before the meeting.

2. Special Meetings. A special meeting of the Members may be called at any time by the President or any three Directors, or by ten per cent of the Members. Each call for a special meeting of the Members shall state the time, place and the purpose of such meeting. If made by the Board of Directors, it shall be by resolution duly adopted and entered in the Minutes; if made by the President or by individual directors or by the Members, it shall be in writing and signed by the person or persons making the call, and delivered to the Secretary.

3. Notice of Annual Meeting. The notice of the annual meeting of the Members shall state the time and place of the meeting and the purposes for which it is called, and a copy thereof shall be mailed to each of the Members of the Association at least ten days before the meeting.

4. Notice of Special Meeting. Notice of special meetings of the Members shall state the time and place of the meeting and the purposes for which it is called, and a copy thereof shall be mailed to each of the Members of the Association at least ten days before the meeting.

5. Quorum. One hundred Members present in person or by proxy at any membership meeting shall constitute a quorum for the transaction of all business, unless otherwise required by law.

6. Presiding Officers. The President and the Secretary of the Association shall act as Chairman and Secretary, respectively, of each meeting of Members or Board of Directors, unless the meeting shall otherwise decide.

Section 2. Directors.

1. Regular Meetings. A regular meeting of the Board of Directors shall be held immediately after the adjournment of each annual meeting of the Members, and at the same place where said Members' meeting was held. At this meeting the officers of the Association shall be elected for the ensuing year. Other regular meetings of the Board and Executive Committee may be held at such time or place as the Board may determine from time to time, by resolution.

2. Special Meetings. The President, or one-third of the Members of the Board of Directors may, at any time, call a special meeting of the Board to be held at the office of the Association in said City of Los Angeles, unless the Board of Directors shall authorize the holding of special meetings at other places, at the time specified in said call. The President, or one-third of the members of the Executive Committee may, at any time, call a special meeting of the Committee to be held at the said office or such other place as may be designated by the President and set forth in the notice of meeting.

3. Notice of Meetings. The Board of Directors, by resolution duly adopted, may dispense with any and all notice of regular meetings thereof, otherwise the same notice of regular meetings shall be given as required for special meetings. Notice of special meetings of the Board of Directors shall state the time and place of meeting and the purpose for which it is called and may be served by mail or by personal delivery. If the notice is to be given by mail, a copy thereof shall be mailed to each member of the Board at least five days before the meeting; if by personal service, then a copy thereof shall be delivered to each Director at least forty-eight hours before the meeting.

Section 3. Executive and Other Committee Meetings. The Board of Directors by resolution duly adopted may fix and determine the time, place and manner of calling and holding Executive and other committee meetings and

may specify the notice thereof to be given, or dispense with any necessity for notice, and, likewise, the business to be transacted by any committee either with or without notice of meeting.

Section 4. Business. Any and all business presented may be transacted at any regular meeting of the Members or Board of Directors or at any adjournment thereof, or at any meeting held by written consent or for which a waiver of notice has been attained. Only such business may be transacted at a special meeting as is specified in the notice thereof, unless a written waiver of notice or a written consent to the holding of said meeting be signed. A majority of those in attendance at any meeting at which a quorum is represented shall be sufficient for the adoption of any resolution and transaction of any and all business, unless otherwise required by law or these By-laws.

Section 5. Service of Notice. Whenever under these By-laws notice is required to be given, whether such notice be a notice of meeting or otherwise, such notice may be given by depositing a copy thereof in the United States Mail in a sealed envelope, addressed to the person to whom notice is to be given, either at his residence or place of business, as the same shall appear on the books of the Association. If his residence or place of business does not appear upon the books of the Association and his post office is unknown, the notice shall be addressed to the person at Los Angeles, California. All notices shall be mailed by the Secretary or under his direction, either in Los Angeles, California, or at the place where the Secretary may reside, if within the State of California. If the notice is to be given by personal service then a copy thereof shall be delivered personally to the person to be served. The service or delivery shall be deemed conclusive for all purposes upon the mailing or delivery and shall be proven by affidavit of the person mailing or serving the same.

Section 6. Waiver of Notice and Consent. Unless otherwise prohibited by law, any notice required to be given under these By-laws, whether of meetings or otherwise, may be waived and upon such waiver being made in writing and made of record on the records of the Association, such waiver shall have the same force and effect as if due notice had been given. By mutual consent in writing, a meeting may be held at any time or place without other or further notice, and any and all business may be transacted at such meeting.

ARTICLE XV.—HOLIDAYS AND ADJOURNMENTS

Section 1. Holidays. In the event that any day fixed for a regular or special meeting of the Members or of the Board of Directors or of the Executive Committee falls upon a legal holiday, such meeting shall be held at the same time of day and at the same place upon the next legal business day thereafter, without other or further notice.

Section 2. Adjournments. If a quorum is not represented at any meeting of the Members, or at any meeting of the Board of Directors, or at any meeting of the Executive Committee, regular or special, or if for any cause a meeting is not held on the date fixed therefor, or if the business before said meeting is not completed, those in attendance may adjourn from day to day, or from time to time, to reconvene at the same place at the time appointed in the order of adjournment, and may at such adjourned meeting, transact all business that could have been transacted at the original meeting, and without other or further notice than contained in the order of adjournment, as recorded in the minute book of the Association.

ARTICLE XVI.—COMMITTEES

The Board of Directors, or Executive Committee, from time to time, may appoint such standing or special committees, as may, in their judgment, be deemed expedient and refer to such committee or committees any corporate matter, with full power to act.

ARTICLE XVII.—MARKETING AND SERVICE

Section 1. **Marketing and Other Service.** The Association will furnish all of its facilities to the Members for the marketing of their products and the manufacture, purchase or sale of feed and other commodities and supplies upon such terms and conditions as from time to time may be fixed by its Board of Directors, with all of which each Member using the facilities of the Association agrees to comply.

Section 2. **Commodity Marketing and Service.** Insofar as it is practicable, all marketing and other operations will be conducted on a commodity basis and expense and receipts apportioned accordingly, except as to such operations as may be conducted for the general interest or benefit of all, regardless of particular commodity interest, in which event the expense and receipts shall be otherwise and equitably apportioned, all as determined and declared by or under the authority of the Board of Directors in the exercise of an absolute discretionary power.

Section 3. **Allocation and Apportionment.** All receipts, expense and losses, including the general overhead expense of maintaining the Association, and all interest charges and credits, are to be allocated and charged or credited, from time to time, to the various commodities handled or marketed, on a unit or value basis, as determined by the Board of Directors of the Association, except as otherwise authorized under these By-laws, and shall be so apportioned that each commodity will ultimately be credited or charged with a fair and equitable share of the total. Such allocation and apportionment, when made of record and approved by or under the authority of the Board of Directors, shall be final and conclusive.

Section 4. **Pooling.** Any particular commodity or commodities, may be pooled, under such rules and regulations as may be adopted by, or under the authority of the Board whenever such pooling is deemed advisable to enable the commodity to be marketed or handled to better advantage or will tend to give a better assurance of fair and equitable charge and credits to the respective members in interest.

Section 5. **Contracts.** The Board of Directors of the Association may, but shall not be required to, limit the use of the marketing and other facilities of the Association, to be extended to members, to such thereof as may enter into a marketing or other agreement with the Association for the use of its facilities, and may refuse to extend its facilities to, or serve any member who refuses to enter into such agreement or fails to comply therewith. The Board of Directors of the Association is hereby vested with full and unlimited discretionary power to fix and determine the basis upon which service is to be rendered by the Association or its facilities made available to members and others.

Section 6. **Trade Purchases.** The Association, for the purpose of meeting its trade requirements, from time to time and whenever required, may purchase commodities on the open market, which, when so purchased, unless otherwise determined by the Board of Directors, shall be deemed to be purchased for the benefit and account of those marketing or purchasing like commodities through the Association, such transactions in any event to be limited to purchases deemed requisite to enable the Association to properly carry on and conduct its business, supply its trade and reduce the cost of operations to the Members and the Producers in interest.

Section 7. The Association may transact business with, or render service for Non-Members, upon such terms and conditions as its Board of Directors may fix and determine, subject only to the limitations contained in the Cooperative Marketing Act of the State of California, and in these By-laws.

ARTICLE XVIII.—MARKETING RETURNS, ADVANCES AND EXPENSE

Section 1. Advances. The Association may advance to those delivering commodities such amount per unit of commodity or percentage of value as may be deemed advisable, subject, however, to final adjustment as at the end of each calendar or fiscal year, at which time additional payments or charges shall be made in order that each Member may ultimately receive or be charged with his fair proportionate share.

Section 2. Retention and Charges. The Association may retain out of any funds on hand, whether accruing from marketing operations, the rendition of service, or otherwise, such amounts as, from time to time, may be deemed requisite to meet estimated overhead, operating or other expense and losses; to set up adequate reserves and provide a working capital; to create, build up and maintain any Special Fund or Funds, or for other legitimate purposes of the Association.

Upon termination of membership, through withdrawal or otherwise, the former member shall be entitled to receive ultimately only such proportionate interest as may have theretofore been certified to him, without taking into consideration the value of reserves, if any, such reserves being considered as an expense item.

Section 3. Assessments. The Association, for any legitimate purpose, including among others the building up of a permanent working capital and the creation and maintenance of Special Funds, may levy assessments against those who are using its facilities; any such assessment when so levied to be apportioned and charged in such manner as will fairly apportion the same between those who have been using, or are to use, the facilities of the Association, or any specified facility, during such period of time as may be specified in the order for the assessment; provided, however, that the levy may be limited to those who are using, or are to use, a particular facility or facilities only when the amount to be realized thereunder has been or is to be used primarily for the benefit of those using such facility or facilities. Any assessment so to be levied shall be levied only pursuant to resolution of the Board of Directors of the Association, and shall be limited to the amount or percentage and to the use to be specified therein, the resolution to set forth the time fixed for the payment of assessment, whether the same is to be realized through a deduction from future marketing returns or addition to the charge made for service rendered, or otherwise, and the particular class or classes of the Members against whom such assessment is to be levied or charged, and shall further specify the date when the same is to become delinquent in the event any such specific date for delinquency is to be fixed, and no other or further requirement for the levy and collection of any assessment shall be imposed, and the same when so levied may be collected at the time and in the manner specified in the resolution providing therefor.

Any assessment when so levied by the Board of Directors may be collected from the Members against whom the same has been levied as conclusively determined under authorization of the Board of Directors and in the manner specified by the Board, or by appropriate proceedings at law; the Board of Directors of the Association being hereby vested with an absolute discretionary power to fix and determine all matters pertaining to the levy and collection of the assessment, including among all others the amount, basis of payment and the apportionment thereof to be made as between the respective Members of the Association upon such commodity, use, or other basis as may be deemed to be fair and equitable.

Section 4. Lien. The Association shall have a first lien upon all funds, property, property rights and interests in the Association however evidenced or certified, and upon any amounts payable to the Member for marketing returns or otherwise, to the extent of any amount that the Member may be indebted or obligated to this Association on any account or accounts, claim or claims, whatsoever, liquidated or otherwise. The Lien may be enforced through

the immediate application of any cash or credit held by the Association for the Member or by sale of interest or membership after five days' notice in writing served upon the Member as provided in these By-laws for service of notice of meeting. All sales of membership or interest shall be made at the office of the Association in Los Angeles, by the Secretary or other person designated by the President of the Association, without other or further formality or notice. The Association or any Member thereof may be or become a purchaser at such sale.

ARTICLE XIX.—INDEBTEDNESS

Section 1. Purposes. The Association may incur indebtedness in such amount as may be deemed essential by its Board of Directors in order to enable it to carry on and conduct its business and accomplish the purposes for which it was organized.

Section 2. Certification Conclusive. The Certificate of the President or Vice-President, and Secretary or Assistant-Secretary, under the corporate name and seal of the Association certifying to the adoption of a resolution authorizing the borrowing of money or the creation of any indebtedness by the Association as and whenever delivered to the lender, and to the extent to which any advance may be made thereunder, shall be conclusive evidence as against the Association with respect to the authorization, or purported authorization, for the creation of the indebtedness certified, irrespective as to whether or not all of the requirements contained in these By-laws may have then or theretofore been complied with.

ARTICLE XX.—BOOKS AND PAPERS

The Books of the Association and such papers or instruments as may be placed on file by vote of the Members, or Directors, or Executive Committee, shall, at all times during business hours, be subject to the inspection of any Member.

ARTICLE XXI.—MAILING ADDRESS

Any member or Director may file a mailing address with the Secretary of the Association; thereafter and until further notice from the Member or Director, all notices and communications from the Association to such person that are to be mailed, whether required by law, by these By-laws, or otherwise, shall be addressed to the address so given.

ARTICLE XXII.—SEAL

The Association shall have a Common Seal, which shall be of such device and form and have such wording thereon as the Board of Directors of the Association may prescribe, and adopt by resolution of the said Board from time to time.

ARTICLE XXIII.—AMENDMENTS

These By-laws may be repealed, amended or additional By-laws adopted at any time, and from time to time, by a two-thirds vote of the membership, at any regular or special meeting thereof, or by mail vote. If at a regular meeting, or at any other meeting held by consent or under a waiver of notice, then only such notice need be given as is given at the meeting; if at a special meeting, not held by consent or under waiver of notice, then only in the event the question be included in the notice of meeting and it shall be included by the Secretary whenever requested so to do by a Member of the Association; if by mail ballot, no other or further notice need be given than that required for submission of the question for a mail vote as in Section 4 of Article IV of these By-laws specified. If the question be included in the call for any special meeting, but not finally then acted upon, it may be considered and determined at the next regular or special meeting without other or further notice.

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| 115. | Grafting Vinifera Vineyards. |
| 117. | The Selection and Cost of a Small Pumping Plant. |
| 127. | House Fumigation. |
| 178. | The Packing of Apples in California. |
| 212. | Salvaging Rain-Damaged Prunes. |
| 230. | Testing Milk, Cream, and Skim Milk for Butterfat. |
| 232. | Harvesting and Handling California Cherries for Eastern Shipment. |
| 239. | Harvesting and Handling Apricots and Plums for Eastern Shipment. |
| 240. | Harvesting and Handling California Pears for Eastern Shipment. |
| 241. | Harvesting and Handling California Peaches for Eastern Shipment. |
| 244. | Central Wire Bracing for Fruit Trees. |
| 245. | Vine Pruning Systems. |
| 248. | Some Common Errors in Vine Pruning and Their Remedies. |
| 249. | Replacing Missing Vines. |
| 253. | Vineyard Plans. |
| 257. | The Small-Seeded Horse Bean (<i>Vicia faba</i> var. <i>minor</i>). |
| 258. | Thinning Deciduous Fruits. |
| 259. | Pear By-Products. |
| 261. | Sewing Grain Sacks. |
| 262. | Cabbage Production in California. |
| 265. | Plant Disease and Pest Control. |
| 266. | Analyzing the Citrus Orchard by Means of Simple Tree Records. |
| 269. | An Orchard Brush Burner. |
| 270. | A Farm Septic Tank. |
| 276. | Home Canning. |
| 278. | Olive Pickling in Mediterranean Countries. |
| 279. | The Preparation and Refining of Olive Oil in Southern Europe. |
| 282. | Prevention of Insect Attack on Stored Grain. |
| 288. | Phylloxera Resistant Vineyards. |
| 290. | The Tangier Pea. |
| 292. | Alkali Soils. |
| 294. | Propagation of Deciduous Fruits. |
| 296. | Control of the California Ground Squirrel. |
| 301. | Buckeye Poisoning of the Honey Bee. |
| 304. | Drainage on the Farm. |
| 305. | Liming the Soil. |
| 307. | American Foulbrood and Its Control. |
| 308. | Cantaloupe Production in California. |
| 310. | The Operation of the Bacteriological Laboratory for Dairy Plants. |
| 311. | The Improvement of Quality in Figs. |
| 312. | Principles Governing the Choice, Operation, and Care of Small Irrigation Pumping Plants. |
| 316. | Electrical Statistics for California Farms. |
| 317. | Fertilizer Problems and Analysis of Soils in California. |
| 318. | Termites and Termite Damage. |
| 319. | Pasteurizing Milk for Calf Feeding. |
| 320. | Preservation of Fruits and Vegetables by Freezing Storage. |
| 321. | Treatment of Lime-induced Chlorosis with Iron Salts. |